



VILLAGE OF SALADO
RESOLUTION

R-2015-123

**A RESOLUTION OF THE BOARD OF
ALDERMEN ADOPTING AN INVESTMENT
POLICY FOR FISCAL YEAR 2015–2016 AND
DESIGNATING AN INVESTMENT OFFICER
FOR FISCAL YEAR 2015-2016**

WHEREAS, the Village of Salado is a Type A government of the State of Texas; and

WHEREAS, the Board of Aldermen seek to be in compliance with The Public Funds Investment Act governed by Government Code §2256.001; and

WHEREAS, Government Code § 2256.006 states that a governing body may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body; and

WHEREAS, the Public Funds Investment Act requires the Village to adopt an investment policy, investment strategies, and designate an Investment Officer; and

WHEREAS, the Investment Officer and the Village Accountant have reviewed the investment policy and have deemed it to be congruent with the investment philosophy of the Village and reflective of the Village's fiscal goals of safety, liquidity, and yield.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE VILLAGE OF SALADO THAT:

The Investment Policy attached as "Exhibit A" has been reviewed by the Board of Aldermen and the Board hereby adopts the Investment Policy as presented.

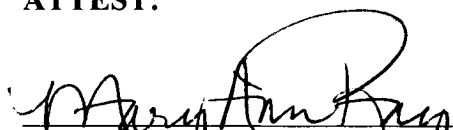
IT IS FURTHER RESOLVED, that Dan Nixon is hereby appointed Investment Officer to be responsible for the investment of funds in accordance with the attached Investment Policy.

APPROVED AND PASSED this, the 1st day of October, 2015, by a vote of 5 (ayes), 0 (nays), and 0 (abstentions).

VILLAGE OF SALADO, TEXAS


Skip Blarzett, Mayor

ATTEST:


Mary Ann Ray, Village Secretary



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INVESTMENT POLICY

Investment Policy

Adopted October 1, 2015

The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, prescribes that each Village is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices, which must be exercised to ensure effective and judicious fiscal management of the Village's funds.

The Investment Officer of is designated as the investment officer of the Village of Salado, Texas, and is responsible for all investment decisions and activities.

I. Scope

This Policy applies to all investment activities of the Village's funds under its control, except those subject to other investment covenants, or excluded by contract. The Investment Policy will govern the activities of the Investment Officer in his and designated deputies in their management of all public funds covered by this Investment Policy.

In order to make effective use of the Village's resources, all funds shall be pooled for investment purposes, except for those funds required to be accounted for in other accounts as stipulated by applicable laws, bond covenants, contracts or Village policy. The pooled funds will include, but are not limited to, the funds of the General Fund, Water & Wastewater, GO Interest & Sinking, Hotel/Motel, Capital Projects, Federal/State Grant, Drainage, and Tax Increment Funds. The Firemen's Pension Fund, Deferred Compensation Plans, and any investments donated to the Village for a particular purpose, or under terms of use specified by the donor, are outside the scope of this Investment Policy.

This Policy also requires the formal adoption of an Investment Strategy that specifically addresses each of the Village's fund groups. (See Attachment A)

II. Objectives^[DN1]

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

- A. Safety – Investments shall be undertaken in a manner that seeks to ensure the preservation of principal.
- B. Liquidity – The Village's investment portfolio will remain sufficiently liquid to enable the Village to meet all operating requirements, which might be reasonably anticipated.
- C. Yield – The Village's investment strategy is conservative. Given this strategy, the benchmark used by the Investment Officer to determine whether market yields are being achieved shall be the 90-day T-bill rate. Return on investment is of least importance compared to the safety and liquidity objectives.

Each investment transaction shall seek to first ensure that principal losses are avoided, whether they are from security defaults or erosion of market value.

III. Delegation Of Authority^[DN2]

The Investment Officer may designate deputies to assist with the management of the investment portfolio.

The Investment Officer or designated deputy shall be responsible for all transactions, compliance with internal controls, and insuring that all safekeeping, custodial, and collateral duties are in compliance with this investment policy and other applicable laws and regulations.

IV. **Standard Of Care**

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. This investment principle shall be applied in the context of managing the overall investment portfolio.

The Investment Officer or designated deputy , acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for an individual security 's credit risk or market price changes , provided that deviations from expectations are reported in a timely manner to the City Administrator, and appropriate action is taken to control adverse developments .

V. **Ethics And Conflicts Of Interest**

The Investment Officer and designated deputies shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. An individual who has a personal business relationship with a business organization offering to engage in an investment transaction with the Village shall file a statement with the Texas Ethics Commission and the Board of Aldermen disclosing that personal business interest. A disclosure statement will also be filed if the Investment Officer or any designated deputy is related within the second degree by affinity of consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the Village.

For the purpose of this section, an individual has a personal business relationship with a business organization if:

- A. The individual 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 organizations;
- B. Funds received by the individual from the business organization exceed 10 percent of the individual's gross income for the previous year; or
- C. The individual 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 individual.

VI. **Accounting/Reporting**

The Investment Officer shall, not less than quarterly, prepare and submit to the Board of Aldermen a written report of investment transactions for all funds covered by this investment policy for the preceding reporting period. The report should:

- A. Describe the investment position of the entity on the date of the report;
- B. Be prepared and signed by the Investment Officer[DN3];
- C. Contain a summary statement prepared in compliance with Governmental Accounting Standards (GAS) that states the beginning market values, additions and changes to the market value, ending market value and fully accrued interest for the reporting period.[DN4]

- D. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by type of asset and fund type invested.[DN5]
- E. State the maturity date of each separately invested asset that has a maturity date;
- F. State the compliance of the investment portfolio as it relates to the Village's Investment Policy, the Village's Investment Strategy and the Public Funds Investment Act; and
- G. The reports should be formally reviewed at least annually by an independent auditor.

The method used to monitor the market price of acquired investments is to obtain market rates for the total portfolio from at least two independent brokers or from a recognized entity that provides a similar service.[DN6]

VII. **Internal Controls**

The management of the Village of Salado, Texas, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this policy, we have identified procedural controls for the purchase of investments (See Attachment B). Significant internal control structure policies and procedures are beyond the scope of this policy. The Director of Finance shall comply with the Village's Internal Control Policies and Procedures at all times.

VIII. **Diversification**[DN7]

The Village will diversify use of investment types and issuers to avoid incurring unreasonable risks inherent in over-investment in specific instruments, individual issuers or maturities.

The investment portfolio shall not exceed the following guidelines without prior approval of City Administrator:

- A. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single investment type.
- B. Investment in any one single U.S. Agency Issue shall not exceed 30% of the total investment portfolio.
- C. Commercial Paper shall not exceed more than 5% of the total investment portfolio.
- D. With the exception of U.S. Treasury securities, no more than 40% of the total investment portfolio shall be invested with a single issuer.
- E. Investment with maturities of three years shall be limited to a maximum of 20% of the total portfolio.

- F. The minimum maturity on any individual investment shall be one day (overnight). Maturities will be scheduled to meet liquidity and operating requirements.
- G. The maximum maturity for each investment and the total portfolio will be timed to maturity to meet cash flow needs established by the cash flow analysis. The maximum maturity of any individual investment shall not exceed three (3) years.
- H. The maximum dollar-weighted average maturity of the total investment portfolio is 270 days.

Maturity schedules shall be timed according to anticipated liquidity needs. Investments, from time to time, may be liquidated before maturity for cash-flow purposes. To meet these disbursementschedules, market gains or losses may be required. Any losses for early maturity liquidation should be minimized, and they should be reported as such to the City Administrator in a timely manner. Actual risk of default shall be minimized by adequate collateralization. Market risk shall be minimized by diversification of investment type and maturity.

The Investment Officer shall routinely monitor the contents of the investment portfolio, the available markets and the relative values of competing instruments, and shall adjust the investment portfolio accordingly, keeping in mind the overall objectives of the investments.

IX. **Cash Flow Analysis** [DN9]

The Investment Officer, in conjunction with the Village Accountant may develop and maintain a comprehensive cashflow analysis for select Village's fund types. The purposes will be to determine liquidity needs and the available funds for investing. The summarized cash flow analysis reports will be provided to the Board of Aldermen and the Village Administrator on a quarterly basis.

X. **Authorized Investments** [DN10]

The following is a list of authorized investments:

- A. Obligations issued, guaranteed, insured by, or backed by the full faith and credit of the United States or its agencies and instrumentalities (i.e. U.S. Treasury and Agency Issues).
- B. Certificates of Deposit, which are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and are secured by obligations of the United States or its agencies and instrumentalities, that have a market value of not less than the principal amount of the certificates.
- C. Fully collateralized repurchase agreements that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities. The securities purchased by the Village must be pledged to the Village, held in the Village's name and deposited at the time the investment is made with the Village's custodial bank. Repurchase agreements can only be placed through primary government securities dealers or financial institutions doing business in Texas. The maximum term for repurchase agreements is ninety (90) days from the date the reverse security repurchase agreement is delivered and securities held as collateral must not mature later than the agreement's expiration date.
- D. Commercial paper with a stated maturity of 270 days or less from the date of issuance. Must be rated not less than A- 1 or P-1, or an equivalent, by at least two nationally recognized credit rating agencies or rated by one credit rating agency plus fully secured by an irrevocable letter of credit issued by a domestic bank.

- E. Investment pools that are authorized by Council, invest only in investments approved by the Public Funds Investment Act, have an advisory board and are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating agency. Investment pools must provide an offering circular, investment transaction confirmations, and monthly reports.
- F. S.E.C. registered no-load money market mutual funds that have a dollar-weighted average stated maturity of ninety (90) days or less and include in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

An investment that requires a minimum rating under this policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Investment Officer will take all prudent measures that are consistent with this policy to liquidate an investment that does not have the minimum rating; however, the Investment Officer will not be required to liquidate investments that were authorized investments at the time of purchase.

The Investment Officer is specifically prohibited from investing in:

- A. Structured notes, investments with inverse-floater s, collateralized mortgage obligations, or any other form of derivatives;
- B. Any investment not authorized by this Policy or the Public Funds Investment Act;
- C. Any instrument for which there would not be a ready market for immediate resale;
- D. Any investment pool in which the Village would own more than 20% of the market value of the pool;
- E. Highly sophisticated investments not freely conducted in the marketplace e.g., derivatives; and
- F. Any one mutual fund in which the Village would own more than 10% of the total assets of the mutual fund.

The Investment Officer is also specifically prohibited from borrowing funds for the purpose of reinvesting the funds to leverage return.

XI. **Eligible Institutions**

The following financial institutions are eligible for consideration for investment transactions by the Investment Officer:

- A. State or national banks domiciled in the State of Texas.
- B. Savings banks domiciled in the State of Texas.
- C. State or federal credit unions domiciled in the State of Texas.
- D. Brokers approved and designated as primary dealers by the Federal Reserve Bank of New York.
- E. Secondary or regional brokers who meet the following requirements:
 - 1. National Association of Security Dealers certified;

2. Carry Texas State Registration;
3. Have net capital of \$1 million or more for Delivery Versus Payment investment transactions or net capital of \$50 million or more for Repurchase Agreement transactions; and
4. Have at least five (5) years of operation.

F. Local government investment pools, i.e. Texpool, TexSTAR, etc.

G. S.E.C. registered money market mutual funds.

Routine investment transactions, not covered in the scope of this policy such as sweep accounts, certificates of deposit, and float interest earnings, would be allowed with the Village's depository.

A written copy of the Village's investment policy shall be presented to any financial institution offering to engage in an investment transaction with the Village. The qualified representative of the financial institution offering to engage in an investment transaction with the Village shall execute an Investment Policy Certification substantially to the effect that the financial institution has:

- A. Received and reviewed the Village's investment policy; and
- B. Acknowledged that the financial institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Village and the institution that are not authorized by the Village's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Village's entire portfolio or requires an interpretation of subjective investment standards.

A list of individual qualified institutions authorized to engage in investment transactions with the Village shall, at least annually, be reviewed, revised, and adopted by the Board of Aldermen. (See Attachment C)

All broker/dealers will have on file, with the Village, Trading Authorization Agreements.

XII. **Security Purchases/Trades**

The Village will purchase securities on an "as needed" basis only. The Village will determine investment requirements based on cash flow analysis and current cash positions. The Village will evaluate all bids given for determination of the securities best suited for the Village's requirements.

Security selections and term will be determined in accordance with, (1) safety of principal, (2) cash flow needs, (3) investment type as a percentage of total investment portfolio and (4) yield.

Brokers/dealers are not encouraged to contact the Village on currently available securities that the broker/dealers believe are items of interest to the Village.

All securities placed will be solicited from no less than three qualified institutions. The Investment Officer will obtain the quotes and get approval from the Village Administrator or a designated deputy prior to making any investment decision. All security purchases and trades conducted through the Village will be settled with the Village's third party custodial bank. The use of Delivery versus Payment (DVP) for investment transactions/purchases, except with investment pools and money market mutual funds, will be continually used by the Investment Officer at the Village's third party custodian bank.

The Investment Officer Village Administrator, Village Secretary and Assistant Village Secretary are the only individuals authorized to wire funds for the Village. Dual authorization shall be used for all non-repetitive wire transfers.

XIII. **Collateralization Requirements**

Consistent with the requirements of the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, the Village will require full collateralization of all deposits with depository institutions. In order to anticipate market changes and provide a level of security, the collateralization level will be 102% of market value of principal and accrued interest on the deposits less the amount insured by the Federal Deposit Insurance Corporation. Securities pledged as collateral shall be held in the Village's name by an independent third party with whom the Village has a current custodial agreement. A clearly marked evidence of ownership must be supplied to the Village for retention. The Village must approve any release and/or substitution of collateral before such action is taken. Collateral shall be reviewed daily to assure that the market value of the securities pledged equals or exceeds the related deposit.

Securities authorized by the Public Funds Collateral Act are acceptable for collateralization purposes.

Private insurance coverage is not an acceptable collateralization form.

XIV. **Investment Training**

The Investment Officer and designated deputies shall attend:

- A. At least one training session relating to the Investment Officer designated deputies' responsibilities within 12 months after taking office or assuming duties.
- B. Investment training sessions not less than once in a two year period and receive not less than ten (10) hours of instruction relating to investment responsibilities.

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Public Funds Investment Act.

All training shall be from an independent source on the list of approved training seminar sponsors. (See Attachment D)

XV. **Conclusion**

The Investment Officer will adhere to the investment policy in all investment decisions of the Village. The Investment Officer will provide quarterly written reports to the Village Administrator and Board of Aldermen on the investment activity of the Village's investment portfolio.

All current investment activity, which does not comply with the above stated policy, will be allowed to mature, and all future investment activity will be negotiated under the terms of the stated policy.

In conjunction with the annual financial audit, a compliance audit will be performed on management controls and adherence to this policy.

An annual review of the Investment Policy and Strategy will be conducted by the Investment Officer. The Investment Policy and Strategy, with any changes, will then be presented for the Board of Aldermen to review. Formal adoption of the Investment Policy and Strategy will be documented in the minutes of the Board of Aldermen meeting and the adopting resolution.

INVESTMENT STRATEGY -

Attachment A

The investment strategy of the Village of Salado, Texas, is adopted to provide investment guidelines that will minimize the risk of loss. In order to make effective use of the Village's resources, all monies shall be pooled into one fund, except for those monies required to be accounted for in other accounts as stipulated by applicable laws, bond covenants, contracts or Village policy. Investment priorities (in order of importance) are as follows:

- A. Suitability – Any investment allowed by the Investment Policy is suitable. Maturity schedules shall be timed according to anticipated needs.
 - B. Safety of Principal – All investments should be of high quality with no perceived default risk.
 - C. Liquidity – Local government investment pools and mutual funds shall provide daily liquidity. Fixed maturity investments shall provide liquidity as required by anticipated needs.
 - D. Marketability – Investments should have an active and efficient secondary market to enable the Village to liquidate investments prior to the maturity for unanticipated cash requirements.
 - E. Diversification - The Village will diversify use of security types, issuers and maturities. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio shall be invested in a single security type. With the exception of U.S. Treasury securities, no more than 40% of the total investment portfolio shall be invested with a single issuer. Maturity schedules shall be timed according to anticipated liquidity needs. The maximum dollar-weight average maturity is 270 days.
 - F. Yield – The Village's investment strategy is conservative. The benchmark used by the Investment Officer to determine whether market yields are being achieved shall be the 90-day T-bill rate.
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INVESTMENT PURCHASING PROCEDURAL CONTROLS -

Attachment B

- A. Investment Officer shall analyze cash flow and determine specific cash flow needs of the Village before any current securities mature or any new money is invested.
- B. Investment Officer agree to type of security (as allowed or as authorized by law, contract, or investment policy), denominations, and duration.
- C. Village Secretary
 - Issues Request for Qualifications from brokers to establish an authorized brokers list in accordance with state law procedures;
 - Obtains three (3) net quotes for securities from authorized brokers;
 - Prepares quote listing with relevant information from the offerers;
 - Submits quote listing with recommendation for best responsible net offerer to Investment Officer or ;
 - Investment Officer approves best responsible net offerer; and
 - Contacts selected offerer with instructions to buy.
- D. Broker faxes or calls Village Secretary with details of the purchase (disc, etc.).

- E. Village Secretary contacts safekeeping with details, and faxes copy of CUSIP to safekeeping for security verification.
- F. Safekeeping compares CUSIP to delivered securities to initiate payment. The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the Federal Reserve System. By so doing, Village funds are not released until the Village has received, through the Federal Reserve wire, the securities purchased.
- G. A letter is prepared with Investment Officer and Village Secretary's signature stating all details of the purchase, and is sent to the broker.
- H. The broker must verify the letter for understanding and correctness of securities purchased, sign it, and return it to the Village of Salado.
- I. The investment portfolio and cash flow documents are updated to reflect security transactions. The Village accountant reconciles the investment portfolio with the general ledger monthly. The reconciliation is reviewed and approved by the Village Administrator.
- J. Safekeeping receipts are received by a Finance employee who is independent from the initiating or approval of the purchase, and are verified with the Daily Balance Report; if correct, the receipts are filed for documentation upon arrival.

LIST OF QUALIFIED INSTITUTIONS -

Attachment C

The following institutions are authorized for use by the Investment Officer. Additional institutions may be added to the list if Local Government Code procedures are followed.

Texpool – Local government investment pool
TexSTAR – Local government investment pool
Local banks
Local savings and loans

This list shall be revised when necessary throughout the year to account for additions and deletions.

TRAINING SEMINAR SPONSORS -

All investment training shall be from an independent source approved by the Board of Aldermen.

The following sponsors are hereby approved:

- A. Government Finance Officer's Association (GFOA);
- B. Texas Society of Certified Public Accountants (TSCPA);
- C. American Institute of Certified Public Accountants (AICPA);
- D. Texas Municipal League (TML);
- E. Government Treasurer's Organization of Texas (GTOT);
- F. Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits; or
- G. Other sponsors approved on an individual basis by the Village Administrator or Mayor.