

## **RESOLUTION NO. 2004-79**

### **A RESOLUTION ADOPTING AN AMENDED TOWN OF TALTY INVESTMENT POLICY AND STRATEGY**

**WHEREAS**, the Town is required to review the Town's investment policy and strategy annually; and

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

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Aldermen of the Town of Talty:

That the Town of Talty Investment Policy and Strategy, as amended, attached hereto as "Exhibit A" is hereby adopted as the investment policy and strategy of the Town of Talty effective June 8, 2004.

**PASSED, ADOPTED AND APPROVED** by the Board of Aldermen of the Town of Talty this the 8<sup>th</sup> day of June, 2004.

**APPROVED:**

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**Allison Weaver, Mayor**

**ATTEST:**

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**Roberta Owens, Town Secretary**

**EXHIBIT A**

# TOWN OF TALTY INVESTMENT POLICY

## 1.0 Policy:

It is the policy of the Town of Talty to investment public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the town and conforming to all state and local statutes governing investment of public funds.

## 2.0 Scope:

This investment policy applies to all financial assets of the Town of Talty. These funds include:

### 2.1 Funds:

- 2.1.1 General Fund
- 2.1.2 All other funds

## 3.0 Prudence:

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.

3.1 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 the 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 appropriate action is taken to control adverse developments.

## 4.0 Objective:

The primary objectives, in priority order, of the Town of Talty’s investment activities shall be:

4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Town of Talty shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective,

**diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 **Liquidity:** The Town of Talty's investment portfolio will remain sufficiently liquid to enable the town to meet all operating requirements that might be reasonably anticipated.

4.3 **Return on Investments:** The Town of Talty's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, which is commensurate with the town's investment risk constraints, and the cash flow characteristics of the portfolio.

## 5.0 **Delegation of Authority:**

Authority to manage the town's investment program is derived from a resolution of the Board of Alderman of the Town of Talty. Management responsibility for the investment program is hereby delegated to the Mayor who shall act and serve as the Chief Financial Officer unless and until such office is created and filed by the town council.

5.1 **Investment Procedures:** The Chief Financial Officer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer.

5.2 **Training:** The Chief Financial Officer shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties. The Officer will attend additional training of not less than once every two years for 10 hours. Such training from an independent source shall be approved or endorsed by either the Government Finance Officers Association, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

## 6.0 **Ethics and Conflicts of Interest:**

Investment officials of the Town shall refrain from personal and business activities involving any of the Town's custodians, depositories, broker/dealer or investment advisors which may influence the officer's ability to conduct his duties in an unbiased manner. Investment officials will: 1) not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the Town's business for personal investment decisions; 2) in all respects subordinate their personal investment transactions to those of the Town, particularly with regard to the timing of

purchase and sales; and 3) keep all investment advice obtained on behalf of the Town and all transactions contemplated by the Town confidential, except when disclosure is required by law. Employees and investment officials shall disclose to the Board of Aldermen of the Town of Talty any material financial interests in the financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the town's portfolio.

## 7.0 **Authorized Financial Dealers and Institutions:**

The Chief Financial Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "**primary**" dealers or regional dealers that qualify under **Securities & Exchange Commission Rule I5C3-1 (uniform net capital rule)**. No public deposit shall be made except in a qualified public depository as established by state laws. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Chief Financial Officer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the town invests.

## 8.0 **Investment Portfolio:**

The Town shall pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the town to benefit from the trade. The Chief Financial Officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

Assets of the Town of Talty may be invested in the following instruments as described in the Act; provided, however, that at no time shall assets of the town be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended. The town is not required to liquidate investments that were authorized investments at the time of purchase.

### 8.1 **Authorized Investments**

8.1.1 Obligations of, or Guaranteed by Governmental Entities

8.1.2 Certificates of Deposit and Share Certificates

8.1.3 Repurchase Agreements. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.

8.1.4 Banker's Acceptances

8.1.5 Commercial Paper

8.1.6 Mutual Funds

8.1.7 Investment Pools

**8.2 Public Investment Pools**

Joint investment pools of political subdivisions in the State of Texas are authorized if such pool(s) complies with the guidelines described below:

(1) The requirements of Chapter 791, Tex. Gov't Code, must be met. (This is the "Interlocal Cooperation Act" which pertains to contractual services between different governmental entities).

(2) The investment pool must be continuously rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

(3) The requirements of Section 2256.016 of Tex. Gov't Code (Texas Public Funds Investment Act) must be met by the investment pool and the information required must be furnished to the investment pool created to function as a money market mutual fund to mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at one dollar net asset value. A range below or above one dollar must be disclosed to the Town and may not fall below \$0.995;

(4) The investment pool must have a dollar-weighted average stated maturity of 60 days or less; and

(5) The Town must authorize investment in a particular pool by ordinance or resolution, which may include the ordinance or resolution adopting this investment policy.

**8.3 Other Investment Pools:**

A thorough investigation of a non-public investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program is audited.

- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds.

#### 8.4 **Prohibited Investments**

Investment instruments **not** authorized for purchase by the Town include the following:

- (1) Banker's Acceptances;
- (2) "Bond" Mutual Funds; and
- (3) Collateralized Mortgage Obligations of any type.

#### 9.0 **Collateralization:**

All deposits and investments of the town's funds other than direct purchases of U.S. Treasuries or Agencies 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 Chief Financial Officer 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 weekly to assure that the market value of the pledged securities is adequate.

#### 9.1 **Collateral Defined:**

The Town of Talty shall accept only the following securities as collateral:

- A. FDIC and FSLIC insurance 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.

#### 10.0 **Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements entered into by the Town

shall be conducted using the delivery vs. payment (DVP) basis. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the safekeeping bank. The only exceptions to DVP settlement shall be wire transactions for money market funds and government investment pools. The safekeeping or custody bank is responsible for matching up instructions from the Town's investment officials on an investment settlement with what is wired from the broker/dealer, prior to releasing the Town's designated funds for a given purchase. The security shall be held in the name of the Town or held on behalf of the Town in a bank nominee name. Securities will be held by a third party custodian designated by the investment officials and evidenced by safekeeping receipts or statements. The safekeeping bank's records shall assure the notation of the Town's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the Town. A safekeeping agreement must be in place which clearly defines the responsibilities of the safekeeping bank.

#### **11.0 Diversification:**

The town will diversify its investments by security type. With the exception of Certificates of Deposit, U.S. Treasury securities and authorized pools, no more than 50% of the town's total investment portfolio will be invested in a single security type.

#### **12.0 Maximum Maturities:**

To the extent possible, the Town of Talty will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the town will not directly invest in securities maturing more than thirteen (13) months from the date of purchase. However, the town may collateralize its repurchase agreements using longer-dated investments not to exceed ten years to maturity.

Reserve funds may be invested in securities with maturities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

#### **13.0 Internal Controls**

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

#### **14.0 Reporting**

##### **14.1 Reporting Requirements**

The investment official shall prepare a quarterly investment report in compliance with

section 2256.023 of Tex. Gov't Code (the Public Funds Investment Act). The report shall be submitted to the Town Council within 45 days following the end of the quarter. **In addition**, the Chief Financial Officer shall provide to the Board of Aldermen monthly investment reports that provide a clear picture of the status of the current investment portfolio.

#### **14.2 Investment Records**

The Chief Financial Officer or investment official designated by the Town shall be responsible for the recording of investment transactions and the maintenance of the investment records with reconciliation of the accounting records and of investments carried out by an accountant. Information to maintain the investment program and the reporting requirements, including pricing or marking to market the portfolio, may be derived from various sources such as: broker/dealer research reports, newspapers, financial on-line market quotes, direct communication with broker/dealers, market pricing services, investment software for maintenance of portfolio records, spreadsheet software, or external financial consulting services relating to investments.

#### **14.3 Auditor Review**

The Town's independent external auditor must formally review the quarterly investment reports annually to insure compliance with the Texas Public Funds Investment Act and any other applicable State statutes.

#### **15.0 Investment Policy Adoption:**

The Town of Talty's investment policy shall be adopted by resolution of the Board of Aldermen. The policy shall be reviewed and approved annually by the Board of Aldermen. Any modification made thereto must be approved by the Board of Aldermen.