

ORDINANCE NO. 2003-1

**A RESOLUTION ADOPTING A CITY OF WOODLOCH INVESTMENT POLICY**

**WHEREAS**, Chapter 2256 of the Government Code, commonly known as the "Public Funds Investment Act," requires the city to adopt an investment policy by rule, order, ordinance, or resolution: and

**WHEREAS**, the Public Funds Investment Act requires the treasurer; the chief financial officer, if not the treasurer; and the investment officer of the city to attend investment training; and

**WHEREAS**, the Mayor shall serve as the treasurer; the chief financial officer, if not the treasurer; and the investment officer of the City of Woodloch; and

**WHEREAS**, the City of Woodloch approves of the investment training course sponsored by the Texas Municipal League; and

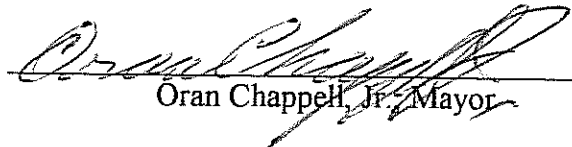
**WHEREAS**, the Mayor has attended an investment training course sponsored by the Texas Municipal League as required by the Public Funds Investment Act: and

**WHEREAS**, the attached investment policy and incorporated strategy comply with the Public Funds Investment Act, as amended, and authorize the investment of city funds in safe and prudent investments.

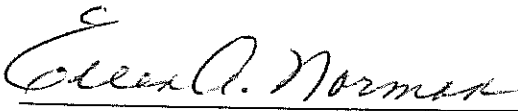
**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the City of Woodloch:

That the City of Woodloch has complied with the requirements of the Public Funds Investment Act, and the Investment Policy, as amended, attached hereto as "Exhibit A," is hereby adopted as the investment policy of the city effective January 14, 2003.

**PASSED, ADOPTED AND APPROVED** by the City Council of the City of Woodloch, Texas, this 14th day of January, 2003.

By   
Oran Chappell, Jr., Mayor

ATTEST:

  
Ellen A. Norman, Town Secretary

APPROVED AS TO FORM:

  
Michael Beller, Town Attorney

# CITY OF WOODLOCH INVESTMENT POLICY

## INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Woodloch in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Woodloch shall review and adopt, by resolution, its investment strategies and policy annually. The resolution shall include a record of changes made to either the investment policy or strategy. This policy serves to satisfy the statutory requirement (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 Woodloch will utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented.

- A. Investment strategies for operating funds and commingled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short- to medium-term securities that will complement each other in a laddered or barbell maturity structure.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities.
- D. Investment strategies for special projects or special purpose funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These funds should include at least 20% highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

# INVESTMENT POLICY

## I. SCOPE

This investment policy applies to all financial assets of the City of Woodloch. These funds are accounted for in the Annual Audit and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Proprietary Funds
- All Other Funds

## II. OBJECTIVES

The City of Woodloch shall manage and invest 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 that 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. 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 plan 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.

**Public Trust**

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

**III. RESPONSIBILITY AND CONTROL**

**Investment Committee**

An Investment Committee, consisting of the Mayor Protem, City Secretary, and one Council Member shall meet quarterly to determine operational strategies and to monitor results. The Investment Committee shall include in its deliberation such topics as: performance reports, economic outlook, diversification, maturity structure, potential risk to the City's funds, and the target rate of return on the City's investments. The Investment Committee shall report their findings to the City Council.

**Delegation of Authority and Training**

Authority to manage the City's investment program is derived from a resolution of the City Council. The Mayor is designated as investment officer of the City and is responsible for investment decisions and activities. The Mayor shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Mayor shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties. A training session not less than once every two years and receive 10 hours of training. Such training from an independent source shall be approved or endorsed by either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments. The Mayor serves as the Chief Financial Officer, Chief Investment Officer, and Treasurer as defined in the Act.

**Internal Controls**

The Mayor is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 the Mayor.

Accordingly, the Mayor shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The results of

this review shall be reported to the City Council. 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. Clear delegation of authority to subordinate staff members.
- E. Written confirmation for telephone (voice) transactions for investments and wire transfers.
- F. Development of a wire transfer agreement with the depository bank or third party custodian.

#### **Prudence**

The standard of prudence to be applied by the Mayor 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 Mayor had 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 Mayor 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.

#### **IV. REPORTING**

Annual Report

Within 60 days of the end of the fiscal year, the Mayor 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 Council.

**V. INVESTMENTS PORTFOLIO**

Active Portfolio Management

The City 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 City to benefit from the trade. The Mayor will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

Investments

Assets of the City of Woodloch 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. The City is not required to liquidate investments that were authorized investments at the time of purchase.

I. Authorized

- A. Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
- B. Direct obligations of the State of Texas and agencies thereof.
- C. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
- D. Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor.
- E. Joint pools of political subdivisions in the State of Texas, which invest in instruments and follow practices allowed by current law. Investment in such pools shall be limited to 50% of the City's entire portfolio. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

**II. Not Authorized**

The City's authorized investments options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.

**Holding Period**

The City of Woodloch 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.

**Investment Pools**

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- \_\_\_ the types of investments in which money is allowed to be invested
- \_\_\_ the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool
- \_\_\_ the maximum stated maturity date any investment security within the portfolio has

- \_\_\_ the objectives of the pool
- \_\_\_ the size of the pool
- \_\_\_ the names of the members of the advisory board of the pool and the dates their terms expire.
- \_\_\_ the custodian bank that will safekeep the pool's assets
- \_\_\_ whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation
- \_\_\_ whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment.
- \_\_\_ the name and address of the independent auditor of the pool
- \_\_\_ the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool
- \_\_\_ the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios
- \_\_\_ a description of interest calculations and how interest is distributed, and how gains and losses are treated

## VII. SAFEKEEPING AND CUSTODY

### Insurance or Collateral

- \_\_\_ All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. The collateralization level will be 100% 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 Mayor 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 monthly to assure that the market value of the pledged securities is adequate.

### Collateral Defined



The City of Woodloch 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.

**Subject to Audit**

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

**VII. INVESTMENT POLICY ADOPTION**

The City of Woodloch investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis by the Investment Committee and any modifications will be recommended for approval to the City Council. The City Council shall review these investment policies and strategies not less than annually.