

# INVESTMENT POLICY



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# INVESTMENT POLICY

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## I. INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Mansfield.

The City Council of the City of Mansfield shall review its policy and investment strategies annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Texas Government Code, Chapter 2256, and the “Act”) to define, adopt and review a formal investment strategy and policy.

## II. SCOPE

This investment policy applies to all financial assets of the City of Mansfield. These funds are accounted for in the City’s Annual Comprehensive Financial Report and include: [PFIA 2256.002(9)]

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately, and
- Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

When advantageous, the City will consolidate cash balances to optimize investment strategy implementation. Investment income will be allocated to the consolidated funds based on their respective participation in the consolidated balances and in accordance with generally accepted accounting principles.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this Policy does not apply to the assets administered for the benefit of the City by outside agencies under pension plans or deferred compensation programs that qualify under Section 401(k) or 457 of the Internal Revenue Code. [PFIA 2256.0004(6)]

## III. INVESTMENT OBJECTIVES & STRATEGIES

It is the policy of the City of Mansfield, Texas (“City”) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of the investment, all available funds shall be invested in conformance with these legal and administrative guidelines.

The City of Mansfield shall manage and invest the assets of all of its funds with the following objectives. 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's trust and consistent with State and Local law. [PFIA 2256.005]

### **A. Suitability of Investments**

The City of Mansfield, Texas maintains a commingled pool of operating and non-operating funds for the purpose of obtaining economies of scale in investments and reduced transaction costs while providing separate investment accounting for its operating and non-operating funds. The City utilizes the specific investment strategy considerations designed to address the characteristics of its portfolio:

1. The City's first investment strategy is to ensure that anticipated cash flows are matched with adequate investment liquidity.
2. The second investment strategy is to create a portfolio structure that will experience minimal volatility during economic cycles (high-quality paper, short-to-mid-term maturities, laddered or barbell maturity structures).
3. The third investment strategy is to maintain a maximum dollar-weighted average maturity of 365 days or less which will be calculated using the stated final maturity date of each security. [PFIA 2256.005(b)(4)(c)]

### **B. Safety**

The primary objective of the City's investment activity in all funds 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 default or erosion of market value. [PFIA 2256.005(b)(2)]

### **C. Liquidity**

The City's investment portfolio for all funds 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. [PFIA 2256.005(b)(2)]

### **D. Yield**

The City's cash management portfolio of all funds shall be designed with the 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. The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, State Statutes, 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. [PFIA 2256.005(b)(3)]

## **E. Risk and Diversification**

The City of Mansfield 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: [PFIA 2256.005(b)(3)]

1. Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act, which are described herein.
2. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury securities and insured or collateralized certificates of deposit.
3. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described in Section VII.
4. Risk of overconcentration by limiting investments to avoid overconcentration in investments from a specific issuer or business sector, when appropriate.

## **F. Marketability**

The Chief Financial Officer or designee shall strive to ensure that the market value of each investment exceeds the book value. 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 Chief Financial Officer or designee will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

## **G. Public Trust**

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

## **IV. RESPONSIBILITY AND CONTROL**

### **A. Delegation of Authority and Training**

Authority to manage the City's investment program is derived from a resolution of the City Council. The Chief Financial Officer, Finance Director, Assistant Finance Director, or designee are designated as investment officers of the City and are responsible for investment decisions and activities. An Investment Officer is authorized to execute investment transactions on behalf of the City. Unless authorized by law, a person may not deposit, withdraw, transfer or manage in any other manner the funds of the City except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to the Investment Officer(s) is effective until rescinded by the City Council or the termination of the person's employment by the City. The Investment Officer(s) shall establish written procedures for the operation of the investment program, consistent with this investment policy. [PFIA 2256.005(f)]

The City shall provide periodic training in investments for Investment Officer(s) through courses and seminars to ensure the quality and capability of the City's investment personnel making decisions in compliance with the PFIA. [PFIA 2256.005(b)(3)]

Investment Officer(s) shall attend at least 10 hours of instruction relating to the officer's responsibility under the Act within 12 months after assuming duties. Thereafter, the Investment Officer shall attend investment training session not less than once every two years and receive not less than 8 hours of instruction relating to investment responsibilities from an independent source approved by the City Council. [PFIA 2256.008 - Local Governments]

### **B. Internal Controls**

The Chief Financial Officer or designee 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 costs and benefits require estimates and judgments by management. [PFIA 2256.005(m)]

Accordingly, the Chief Financial Officer or designee 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:

1. Control of collusion.
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping.

4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation for telephone (voice) transactions for investments and wire transfers.
7. Wire transfer arrangement with the depository bank or third-party custodian.

### **C. Monitoring Market Value**

The Chief Financial Officer or designee shall monitor the market price of investments by checking the market value of all securities in the portfolio on a monthly basis and monitoring statements from financial institutions. The investment officer may seek a third-party independent pricing source to determine the value of the portfolio. [PFIA 2256.005(b)(4)(D)]

### **D. Prudence**

The standard of prudence to be applied by the Chief Financial Officer or designee 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 the Chief Financial Officer or designee has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the City’s control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
2. Whether the investment decision was consistent with the written investment policy of the City.

The Chief Financial Officer or designee, 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, providing that these deviations are reported immediately, and that appropriate action is taken to control adverse developments. [PFIA 2256.006 (a-b)]

### **E. Ethics and Conflicts of Interest**

City staff involved in the investment process shall refrain from personal business activity that could conflict with 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 or undertaking personal investment transactions with the same individual in which business is conducted on behalf of the City.

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 City Council. [PFIA 2256.005(i)]

## **V. REPORTING**

### **A. Monthly Reporting**

The Chief Financial Officer or designee shall submit a signed monthly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent month, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the month in compliance with state law. [PFIA 2256.023]

### **B. Annual Report**

Within 180 days of the end of the fiscal year, the Chief Financial Officer or designee shall present an audited annual report on the investment program and investment activity. This report may be presented along with the Comprehensive Annual Financial Report to the City Manager and City Council. [PFIA 2256.023]

### **C. Methods**

The monthly investment report shall include a management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last month. This management summary will be prepared in a manner which 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 Council. The report will meet the requirements of Texas Government Code §2256.023(b) (4) and shall include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
3. Additions and changes to the market value during the period.

4. Average weighted yield to maturity of portfolio on entity of investments as compared to the applicable benchmark.
5. Listing of investments by maturity date.
6. The percentage of the total portfolio which each type of investment represents.
7. Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.
8. For a pooled fund group, the report must contain a statement prepared in accordance with generally accepted accounting principles, which includes the fully accrued interest for the reporting period.

## **VI. AUTHORIZED INVESTMENTS**

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 investment 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. [PFIA 2256.005(b)(4)(A)]

### **A. Investments**

Assets of the City of Mansfield 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. [PFIA 2256.005(b)(4)(A)]

### **B. Authorized**

1. Obligations of the United States of America, its agencies and instrumentalities. [PFIA 2256.009(1)]
2. Direct obligations of the State of Texas and agencies thereof. [PFIA 2256.009(2)]
3. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or the United States of America. [PFIA 2256.009(4)]
4. Obligations of the State, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent. [PFIA 2256.009(5)]
5. Certificates of Deposit of state and national banks with a main office or branch in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured in

compliance with the Public Funds Collateral Act and this investment policy. [PFIA 2256.010]

6. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Chief Financial Officer, other than agency for the pledged obligation. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution with a main office or branch in Texas. A Master Repurchase Agreement, or similar agreement, must be signed by the institution/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery versus payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 105 percent at the time funds are disbursed. [PFIA 2256.011]
7. Investment pools which meet the requirements of TEX.GOV.CODE §2256.016, provided the City Council has approved the specific pool. [PFIA 2256.016]
8. No-load money-market mutual funds that are registered and regulated by the Securities and Exchange Commission complies with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.). The fund must conform to the requirements relating to the eligibility of investment pools. [PFIA 2256.014(a)]
9. No-Load mutual funds that are registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years and is invested or secured in obligations described in 1 through 4 above. The fund must conform to the requirements relating to the eligibility of investment pools. [PFIA 2256.014(b)]

### **C. Not Authorized**

The City's authorized investment options are more restrictive than those allowed by State law. State law specifically prohibits investments in the following investment securities: [PFIA 2256.009(b)(1-4)]

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

5. Commercial Paper, except that the City can invest in local government investment pools, and money market mutual funds that have commercial paper as authorized investments. These investment pools must meet the requirements of Article VI. Paragraph 7, 8, and 9.

#### **D. Holding Period**

The City of Mansfield intends to match the holding periods of investment funds with the liquidity needs of the City. In no case will the average maturity of investments of the City's funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years. [PFIA 2556.005(b)(4)(B)]

Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve- month period.

#### **E. Competitive Bidding**

When selecting a new investment, at least three competitive offers or bids for all individual security purchases and sales (excluding transactions with money market mutual funds, local government investment pools and when issued securities, which are deemed to be made at prevailing market rates.)

### **VII. SELECTION OF BANKS AND DEALERS**

#### **A. Primary Depository**

At least every five years, a primary depository shall be selected through the City's banking services procurement process, which shall include a formal request for application (RFA ) [Local Government Code Chapter 105]. In selecting a depository, the credit worthiness of institutions shall be considered, and the Chief Financial Officer or designee shall conduct a comprehensive review of prospective depository's credit characteristics and financial history. The selection of a primary depository will be determined by evaluation of the "most advantageous" criteria during the RFA process, and may include the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law,
- The ability to provide requested information or financial statements for the periods specified,
- The ability to meet the minimum required items in the banking RFA,
- Complete response to all required items on the RFA form, and
- Competitive net banking service cost, consistent with the ability to provide an appropriate level of service.

#### **B. Certificates of Deposit**

The City is authorized to invest in certificates of deposit if the certificate is issued by a depository institution that has its main office or a branch in the state and is guaranteed or insured

by the Federal Deposit Insurance Corporation and meets all other requirements of Sec. 2256.010 of the PFIA. [PFIA 2256.010]

### **C. Securities Dealers**

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York also known as the “Primary Government Security Dealers”, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All securities dealers shall provide the City with references from public entities which they are currently serving. [PFIA 2256.025]

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- completed broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation;
- certification of having read the City’s investment policy signed by a qualified representative of the organization as defined by the State Statute [PFIA 2256.005(k)];
- acknowledgement that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization

The investment officers are precluded from purchasing an investment from a representative who has not delivered the written information.

An annual review and revisions when needed of the broker/dealers who are deemed authorized to engage in securities transactions with the City will be conducted by the Chief Financial Officer or designee. The authorization provided is for the brokerage firm and is not intended for a specified named individual.

## **VIII. SAFEKEEPING AND CUSTODY**

### **A. 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. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 105% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. Evidence of the pledged collateral shall be maintained by the Chief Financial Officer or designee 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 pledge securities is adequate. [Local Government Code PFCA 2257.023]

## **B. 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 in gaining access to the collateral should the City of Mansfield 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 Mansfield, the firm pledging the collateral, and the Trustee.

## **C. Collateral Defined**

The City of Mansfield shall accept on the following as collateral:

1. FDIC.
2. 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.
3. Obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas.
4. 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 10 years or less.
5. An irrevocable Federal Home Loan Bank Letter of Credit.

## **D. Subject to Audit**

All collateral shall be subject to inspection and audit by the Chief Financial Officer or designee or the City's independent auditors.

## **E. Delivery vs. Payment**

Treasury Bills, Notes, Bonds and Government Agencies' securities and all investments except investment pool funds and mutual funds 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 receipt shall be delivered to the City. [PFIA 2256.005(b)(4)(E)]

## **IX. INVESTMENT POLICY ADOPTION AND REVIEW**

The City of Mansfield investment policy shall be adopted by resolution of the City Council. The Policy shall be reviewed for effectiveness on an annual basis and any modifications will be recommended for approval to the City Council. [PFIA 2256.005 (E)]