

**INVESTMENT  
POLICY**



## I. General Policy Information

It is the policy of the City of Kerrville (the "City") to administer its funds and the investment of those funds, as its highest public trust. The funds shall be invested in a manner, which provides for maximum safety of principal through risk management and diversification while meeting the City's daily cash needs. The investment of the City's funds should provide a reasonable investment return. The earnings from investments will be used in a manner that best serves the interests of the City, as determined by City Council.

The City shall administer its investment activities in conformance with the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"), the Public Collateral Act (Texas Government Code, Chapter 2257), and in conformance with other applicable state and federal laws, applicable bond requirements, and this investment policy (the "Policy").

## II. SCOPE

This Policy governs the investment of all financial assets of the City as accounted for in the City's Comprehensive Annual Financial Report ("CAFR"). This includes the financial assets of all City funds other than those of the Kerrville Public Utility Board and Kerrville Joint Airport Board, which are set up and operated as entities separate from the City.

## III. GOALS AND OBJECTIVES

Investment of City funds is governed by the following investment objectives, in their order of priority:

- A. Safety - Safety of principal is the foremost objective of the investment program of the City. Investment shall be undertaken in a manner that seeks to ensure the preservation of capital and avoids security defaults or erosion of market values.
- B. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that are reasonably anticipated. Ongoing cash flow analysis will be used to identify changing liquidity needs. Demand deposits or other liquid investments should be maintained as a liquidity buffer for unanticipated expenses. To the extent possible, the City will attempt to match its investment maturities with anticipated liabilities and cash flow requirements. To reflect the cash flow requirements and risk tolerance levels of the City, the weighted average maturity of the overall portfolio shall not exceed one (1) year.
- C. Diversification - In order to minimize investment and market risk, the City will diversify its investments by market sector (security type) and maturity.
- D. Yield - The City's investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. The portfolio(s) risk shall be measured quarterly against a benchmark of the six-month Treasury Bill.

Effective cash management is recognized as essential to good fiscal management. The City shall maintain a cash management program, which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms, and the management of banking services.

#### IV. Strategy

The City maintains one (1) commingled portfolio for City funds and its investment strategy incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio as follows:

- A. The investment strategy for operating, enterprise, and special revenue funds has as its primary objective the assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility. This may be accomplished by purchasing high credit quality securities in a laddered maturity structure that permits some extension for yield enhancement. The maximum dollar weighted average maturity of one (1) year or less will be calculated using the stated final maturity date of each security.
- B. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.
- C. The investment strategy for reserve funds shall have as its primary objective the ability to generate a revenue stream.
- D. The investment strategy for capital projects or capital project funds will have as its primary objective the assurance that anticipated cash flows are matched and provide adequate investment liquidity.
- E. The investment strategy for each Trust Fund with a restricted corpus will have as its primary objective to grow the income used for specific purposes, as outlined in the individual trust document. The City acts as trustee for certain funds, the corpus of which is permanent and the income used for specific operating purposes. These are established as separate portfolios. Currently, the funds so structured include:

##### 1. Butt-Holdsworth Memorial Library Endowment Fund Trust

The principal is not to be used for any ongoing expenditures. Therefore, these funds are to be managed within the parameters of the Policy, but the longer term needs of the funds require a strategy focused on high-credit quality, intermediate term securities which will protect the corpus and generate a reasonable income stream on an annual basis. The portfolio of each trust will maintain a maximum weighted average maturity for the fixed income portion of two (2) years and the maximum stated maturity for any security will be three (3) years. The risk benchmark for the fund will be the two-year US Treasury Note for the comparable period.

The City shall pursue an active versus a passive portfolio management strategy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The City's Investment Officers or Advisor will monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

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## V. Investment Officers

The Chief Financial Officer, Assistant Finance Director, and Accounting Manager are authorized to administer the investment activities of the City and are designated as "Investment Officers" for the purposes of this Policy. City Council may, through its direction to the City Manager, designate additional qualified employees or an SEC registered Investment Advisor as Investment Officer(s). Authority and designation as an Investment Officer is effective until rescinded by the City, expiration of the officer's term, or until termination of employment. Investment Officers shall be familiar with this Policy. No Investment Officer may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Chief Financial Officer. A trading resolution is established by adoption of this Policy authorizing any Investment Officer to engage in investment transactions and open City designated accounts for time and demand deposits on behalf of the City. The persons so authorized to transact business are also authorized to approve wire transfers used in the process of investing.

## VI. Training

All Investment Officers shall comply with training requirements under state law.

## VII. Standard of Care

The standard of care to be used by the Investment Officer(s) shall be the "prudent person standard" and shall be applied in the context of managing the overall portfolio rather than a consideration as to the prudence of a single investment; and whether the investment decision was consistent with this Policy. The standard states:

All 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 their own affairs, not for speculation but for investment, considering the probable safety of the capital and the probable income to be derived.

Investment Officer(s) acting in accordance with the Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price change, provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

An Investment Officer shall refrain from personal business activity that could conflict with proper execution of the investment program or that could impair their ability to make impartial investment decisions. An Investment Officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest to the City and the Texas Ethics Commission.

## VIII. Standard of Ethics

An Investment Officer shall act as custodians of the public trust and shall refrain from any transaction that might involve a conflict of interest, the appearance of a conflict of interest, or any activity that might otherwise discourage public confidence.

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## IX. Authorized Professional Services and Investments

The City recognizes that the fiduciary responsibility for the investment of City funds is the responsibility of the City Council, which directs its Investment Officers through its adoption of this Policy.

All Investment Advisors and brokers/dealers conducting business with the City shall make every reasonable effort to adhere to the spirit, philosophy, and specific terms of this Policy. All Investment Advisors and brokers/dealers shall avoid recommending or suggesting transactions outside the spirit, philosophy, and specific terms of this Policy and toward that end, shall adhere to the following:

- A. Brokers/Dealers - A list of not less than five (5) authorized brokers/dealers, adopted by the City Council, shall be maintained to assure a competitive process. The list is adopted by the Council annually with the Policy adoption. *See Exhibit A* for a list of approved brokers/dealers. Investment Officers will collectively establish the criteria, monitor the service, and evaluate the brokers/dealers for:
  1. Adherence to the City's policies and strategies;
  2. Responsiveness to the City's requests for service and information;
  3. The quality of communications and bids/offers; and
  4. Understanding of the inherent fiduciary responsibility of public funds.
- B. Information/Qualifications - All broker/dealers will be furnished with a copy of this Policy. Financial Institutions and brokers/dealers who desire to transact business with the City must supply the following documents to the Investment Officer(s) or Investment Advisor(s), as applicable:
  1. Current year audited financial statements;
  2. Financial Institutions Regulatory Agency (FINRA) certification and FINRA's Central Depository Registration (CRD) number;
  3. Proof of Texas State Securities registration; and
  4. Brokers/dealers shall also provide timely trade documentation and confirmations. In order to perfect delivery versus payment, no authorized brokers/dealers or their affiliated bank will be used for safekeeping.
- C. Certification - Before transacting any business with the City, an Investment Officer or Investment Advisor shall present each pool in which the City participates with a current copy of the Policy and an authorized representative of the pool shall, in writing to the City, certify substantially to the effect that:
  1. The pool has received and reviewed the Policy; and
  2. The pool has implemented reasonable procedures and controls to preclude investments with the City not authorized by the Policy.

Note: If material changes are made to the Policy, an updated copy shall be provided to all authorized broker/dealers.
- D. Investment Advisor - Investment Advisors shall be required to be registered with the U.S. Security and Exchange Commission and shall provide their SEC ADV Form to the City on an annual basis.

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## X. Authorized Investments

Authorized investments under this Policy shall be limited to the instruments listed below as further described by the Act.

- A. Obligations of the United States Government, its agencies and instrumentalities, excluding mortgage backed securities, with a stated final maturity not to exceed three (3) years.
- B. Fully collateralized or Federal Deposit Insurance Corporation ("FDIC") insured depository certificates of deposit (CD) from banks doing business in Texas with a final stated maturity not to exceed twenty-four (24) months. Funds shall be collateralized in accordance with this Policy and governed by a written agreement that complies with federal and state regulations for properly securing a pledged security interest.
- C. FDIC insured brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one (1) year to maturity. Before purchase, an Investment Officer must verify the FDIC status of the bank to assure that the bank is FDIC insured.
- D. Fully insured share certificates from credit unions in Texas not to exceed twenty-four (24) months to stated maturity and insured by the National Credit Union Share Insurance Fund or its successor.
- E. Commercial paper rated A1/P1 or its equivalent by two (2) nationally recognized rating agencies and with a final stated maturity not to exceed two-hundred seventy (270) days from the date of issuance.
- F. AAA-rated SEC registered money market mutual funds which strive to maintain a \$1 net asset value and comply with SEC Rule 2a-7.
- G. Constant-dollar, AAA-rated (or equivalent) rated Texas Local Government Investment Pools, approved by resolution of the City Council which strive to maintain a \$1 net asset value and complies with the Act. The City investment in any investment pool shall not exceed 5 percent of the total assets of the pool.
- H. Fully insured or collateralized interest bearing accounts in any bank in Texas. Accounts requiring collateralization must be under the provisions of a written collateral/depository agreement.
- I. State and municipal obligations of any state rated not less than A by at least one (1) nationally recognized rating agency and with a stated maturity not to exceed three (3) years.
- J. Fully collateralized repurchase agreements transacted with a primary securities dealer as defined by the Federal Reserve, under a written master repurchase agreement, with a defined termination date, secured by obligations as defined by this Policy held by an independent third party custodian approved by the City, and with a stated final maturity not to exceed ninety (90) days.

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K. Flexible repurchase agreements ("flex repos") to be utilized only in the investment of bond proceeds with a stated final maturity not to exceed the expenditure plan on the bond proceeds.

## XI. Delivery Versus Payment

All security transactions shall be settled on a delivery versus payment (DVP) basis in order to ensure that the City has total control of its investments and its funds at all times.

## XII. Competitive Bidding

All investment transactions, including certificates of deposit, shall be made on a competitive basis to assure that the City is receiving fair market prices. Bids may be solicited orally, in writing, electronically, or in any combination of those methods.

## XIII. Monitoring Credit Ratings

An Investment Officer or Investment Advisor shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security(s) falls below the minimum rating required by this Policy, an Investment Officer or Advisor shall notify the Chief Financial Officer immediately of the loss of rating and within (3) three days make a recommendation as to the conditions affecting the rating and possible loss of principal with available liquidation options.

## XIV. Monitoring FDIC Status

An Investment Officer or Investment Advisor shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, an Investment Officer or Advisor shall immediately liquidate any brokered CD which places the City above the FDIC insurance level.

## XV. Collateralization

Consistent with state law requirements, the City shall require collateral market value equal to at least 102 percent of total deposits including accrued interest on all repurchase agreements and all time and demand deposits above the limits of federal insurance on City and trust funds.

## XVI. Time and Demand Deposits- Pledged Collateral

Collateral pledged to the City must be maintained with a market value margin of at least 102 percent of the total time or demand amounts being collateralized including accrued interest. The banking institution shall be held responsible for monitoring and maintaining the required margins daily. All collateral shall be held by an independent third party banking institution outside the holding company of the pledging bank. A clearly marked evidence of ownership must be provided to the City for all securities pledged and must clearly state that the security is pledged to the City. Substitution of collateral shall only be made after prior written approval by the City or on terms agree to by the City.

The pledging institution shall be responsible for providing, at a minimum, a monthly report, preferably from the custodian, on pledged collateral listing at a minimum, the security description, Committee on Uniform Securities Identification Procedures (CUSIP), par value, maturity, and current market value.

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Financial institutions serving as City depositories are required to execute a depository/collateral agreement with the City outlining, among other conditions, collateral conditions and limitations. The agreement must define the City's rights to the collateral in case of default, bankruptcy, or closing. Collateral authorized by the City will be limited to the following:

- A. Obligations of the U.S. Government, its agencies and instrumentalities, including Mortgage Backed Securities and Collateralized Mortgage Obligation (CMO) which pass the Federal Reserve bank test
- B. Obligations of any state, its agencies and instrumentalities, and municipalities rated A or better by two (2) nationally recognized rating agencies

## XVII. Repurchase Agreement- Owned Collateral

Collateral under a master repurchase agreement is owned by the City under a buy-sell transaction. It will be held by an independent third party safekeeping agent approved by the City under an executed Bond Market Association Master Repurchase Agreement. Collateral with a market value totaling at least 102 percent of the principal and accrued interest is required and the counter-party is responsible for the monitoring and maintaining of collateral and margins at all times.

## XVIII. Safekeeping of City-Owned Securities

All securities shall be settled on a delivery versus payment basis and be held in safekeeping by an independent third party financial institution contracted by the City. The City shall contract with its banking services depository or another financial institution(s) as safekeeping agent for the safekeeping of any securities owned by the City. The designated safekeeping agent will be responsible for the clearing and safekeeping of all security trades and will provide a monthly report of holdings. All securities held by the safekeeping agent on behalf of the City shall be evidenced by a safekeeping receipt.

## XIX. Internal Control

The Chief Financial Officer shall maintain a system of internal controls over the investment activities of the City and his/her subordinate employees. The controls shall be designed to address fraud, employee error, misrepresentation by third parties, unanticipated market changes, and imprudent actions. Controls deemed most important include: control of collusion, separation of duties, custody and safekeeping, delegation of authority, securities losses, and remedial actions, and documentation on all transactions. The City's internal controls over investment activities and quarterly investment reports shall be reviewed annually by the City's independent auditor as part of the annual audit process. Any irregularities or suggestions for improvement shall be reported to the City Council.

## XX. Cash Flow Forecasting

Cash flow forecasting is a control designed to protect and sustain cash flow requirements of the City. An Investment Officer shall maintain a cash flow forecasting process designed to monitor and forecast cash positions of investment purposes.



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## XXI. Reporting

Not less than quarterly, the Chief Financial Officer shall report to the City Council regarding the City's investment activities for the quarter in compliance with the Act. The reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and be prepared in accordance with the Act. Market prices for market value calculations shall be obtained from independent sources. The quarterly report shall be signed by an Investment Officer and Investment Advisor as applicable.

## XXII. Depositories

The City will designate one banking institution through a competitive process as its central banking services provider at least every five (5) years. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization of each financial institution shall be considered. This institution will be used for normal banking services including disbursement, deposits, and safekeeping of securities. A depository agreement(s), executed in accordance with FIRREA (Financial Institutions Resource and Recovery Enforcement Act), shall be established before funds are transferred. Other banking institutions from which the City may purchase depository certificates of deposit (CD) will also be designated as depositories and must execute a written depository (collateral) contract in accordance with the provisions of this Policy if funds exceed FDIC insurance limits.

## XXIII. Policies and Strategy Review

City Council shall review and adopt an investment policy, strategy, and broker/dealer list annually in conjunction with the adoption of the budget. Additional changes to the Policy may be adopted by City Council as needed. The adopting resolution shall reference any changes made to the Policy.

The City's investment activities shall be reviewed annually by the City's independent auditors as part of the annual audit process. The objective of the review shall be to ascertain compliance of the City's investment activities with the investment policy, investment strategy, and applicable laws. Any irregularities shall be reported to the City Council through a report as prescribed by the audit engagement agreement.

# INVESTMENT POLICY

## EXHIBIT A

### AUTHORIZED BROKER / DEALERS

1. Bank of America Merrill Lynch
2. Piper Sandler & Co.
3. FHN Financial
4. Intl F.C.Stone
5. Mizuho Securities
6. Morgan Stanley
7. Mutual Securities
8. Raymond James
9. RBC Capital Markets
10. Robert W. Baird
11. Stifle Nicolaus
12. Siebert Williams Shank & Co LLC
13. Cantor Fitzgerald
14. BOK Financial
15. Oppenheimer & Co.,Inc.
16. UBS Financial Services