CITY COUNCIL POLICY
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Policies for the Investment of Funds of the City of Burleson

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Department Name	Finance

CITY OF BURLESON

CITY COUNCIL POLICY

PURPOSE: To establish policies for the investment of funds of the City of Burleson.

POLICY: I. Scope

This investment policy applies to the investment activities of the City of Burleson and the Burleson Community Service Development Corporation. All financial assets of the City, including the following fund types, shall be administered in accordance with the provisions of these policies.

General Fund
Special Revenue Funds
Debt Service Funds Capital
Project Funds Enterprise
Funds Internal Service
Funds

II. Objective

1. General - All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's return.

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.

Investment of funds shall be governed by the following investment objectives, in order of priority: <u>preservation and safety of principal; liquidity; and yield.</u>

Officers and employees 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction.

If the City's Investment Officer has a personal business relationship with an entity seeking to sell an investment to the City, the Officer shall file a statement disclosing that personal business interest. If the Investment Officer is related within the second degree by affinity or consanguinity, to an individual seeking to sell an investment to the City, he shall file a statement of disclosure with the City Council and the Texas Ethics Commission.

2. Safety - The primary objective of the City's investment activity is the preservation and safety of capital. Each investment transaction shall seek to first avoid capital losses, whether they be from securities defaults or erosion of market value.

3. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with estimated cash flow requirements and by investing in securities with active secondary markets.

4. Yield

a. Non Restricted Cash & Investments - The City's pooled operating portfolio shall be designed with the objective of earning 1.02 times the average rate of return of the U.S. Treasury yield curve. The yield of the pool shall be compared to the yield of the U.S. Treasury yield curve at a point on the curve equal to the weighted average maturity of the pool.

b. Restricted Cash & Investments - Applicable Tax Exempt Debt Proceeds shall attempt to achieve a return equal to the above calculation unless that return exceeds the applicable arbitrage yield limit on the debt. In certain interest rate environments the City may need to restrict yields in order not to exceed arbitrage limits.

III. Responsibility and Control

The Council shall designate the Finance Director to act as the City's Investment Officer, by resolution. Management responsibility for the investment program is hereby delegated to the Investment Officer, who shall establish procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate investment officials. The Investment Officer shall be required to attend at least one annual training session related to investment responsibilities. The training shall be from an independent source approved by the City Council and shall comprise at least 10 hours every two years. Required training shall include education in investment controls, security risks, strategy risks, market risks, and compliance with state and federal laws.

IV. Reporting

The Investment Officer shall submit a quarterly investment report that contains a summary statement of each pooled fund group stating the beginning market value, additions and changes to market value and the ending market value for the quarter. The report shall also state the book value, market value and maturity date of each separately invested asset. The report shall be prepared in compliance with generally accepted accounting principles and include fully accrued interest for the reporting period. Lastly, the report shall state the compliance of the City with the investment strategies stated in the City's investment policy. This report shall be submitted to the City Council and the City Manager.

Within 120 days of the end of the fiscal year, the Investment Officer shall present a comprehensive annual report on the City's investment activity.

The City shall, in conjunction with its annual financial audit, perform a compliance audit of management controls on investments and adherence to the City's Investment Policy.

The City's investment policy and investment strategies shall be reviewed and approved by the City Council on an annual basis (at minimum).

During any fiscal year in which the City invests in other than money market for mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposits, money market accounts or similar accounts, the investment officers' reports must be formally reviewed by an independent auditor and the auditor must report the results of the review to the City Council.

V. Monitoring

1. The Investment Officer shall monitor the market price of investments by use of a third party independent pricing source or by means of an on-line financial data service.

2. The Investment Officer shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer shall immediately solicit bids for and sell the security, if possible, regardless of a loss of principal.

VI. Investments

1. Authorized Investment Instruments - Assets of funds of the government of the City of Burleson may be invested in:

a. Obligations of the United States or its agencies or instrumentalities;

b. Fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations;

c. SEC registered, no load money market funds in accordance with state law and authorized by the City Council;

d. Eligible statewide Investment pools in accordance with State Law and authorized by the City Council.

e. Repurchase Agreements (direct security repurchase agreements and reverse repurchase agreements in accordance with state law) collateralized by U.S. Treasury or U.S. Government Agency Securities.

f. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent

2. Maximum Investment Maturities - The maximum maturity for each fund group and instrument is set forth in the investment strategies under Section II.

3. The Finance Committee shall function as the City's designated Investment Committee. This Committee shall recommend strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than U.S. Treasury Bills,
U.S. Treasury Notes and Investment pool. The recommendations of the Finance Committee will be presented to the City Council for final

approval.

4. The purchase of all individual investment instruments shall be executed on a delivery vs payment basis and shall be held in a third party institution designated and approved by the City Council.

5. The Investment Officer may not purchase any securities from a firm which has not delivered a written certification to the City as required by Sec. 2256.005(k)(l) of the Public Funds Investment Act.

6. The Investment Committee shall at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

VII. STRATEGIES

A. General

The City's basic investment strategy for all financial assets including pooled funds relating to all fund groups, emphasizes in order of priority: safety of principal, liquidity, and yield.

B. Safety

The City's selection of authorized investment instruments reflects a heavy emphasis on safety. Each of the authorized items exhibits relative degrees of credit risk, market volatility, liquidity, and yield potential when compared to each other. However, when compared to the entire range of items available in the financial markets or even the more restrictive range of options legally available to municipalities, the selected options essentially represent the "safest of safe" investment options.

C. Liquidity and Diversity

The goals and relative importance of safety and yield are apparent (with safety representing the primary objective). Other goals such as "liquidity" and diversity" while also very important, are not ends unto themselves. Rather, these activities reflect strategies intended to help achieve one or both goals of safety or enhancement of yield.

1. Liquidity Issues - The goal of liquidity stems from the need of the City to maintain available cash balances sufficient to cover financial outlays as they arise. Since the timing and amount of all financial disbursements are not precisely predictable, there may be occasional needs to liquidate instruments prior to scheduled maturity. The City's investment strategy should provide a means of funding unanticipated expenditures and if necessary liquidating investments, while maintaining a low risk of capital loss or penalty.

2. Investment Diversity Issues - It is the policy of the City of Burleson to diversify its investment portfolios. Whenever practical, assets held in the common investment portfolio shall be diversified to minimize the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The specific composition of the portfolio at any point in time will depend upon a number of interrelated factors including:

a. The Relative Size of Individual Investment Purchases. - Generally speaking, larger purchases (one million dollars or more) provide higher yields than smaller "odd lot" purchases. Larger lots also generally trade more easily, are more liquid, and therefore tend to command a somewhat higher price if the City desired to sell the instruments before maturity. The directly related factors of yield vs purchase size require the City to balance the benefit of diversification achieved by larger numbers of smaller purchases vs the potential increase in yield and liquidity created by larger but less numerous blocks of purchases.

b. The Size of the Portfolio - Other factors held constant, larger portfolios lend themselves to diversification more readily than smaller portfolios. Larger portfolios provide an opportunity for more coverage of investment types and maturities without resorting to "odd lot" purchases and the attendant yield reductions frequently associated with smaller purchases.

c. Type of Investment Instruments - Different investment instruments demonstrate varying degrees of credit and market risk. U.S. Treasury Bills and Notes are generally regarded as the lowest credit risk instruments in the world. There is also a wide and active market in these instruments which creates a relatively higher degree of liquidity in comparison to most other instruments. The market risk of these instruments also compares favorably with other potential options. Relatively higher concentrations of assets invested in T Bills and Notes carry somewhat less risk than similar concentrations in agency discount notes or certificates of deposits.

Other factors held equal, a portfolio denominated primarily in Treasury Notes and Bills would be generally more acceptable than an otherwise equivalent portfolio denominated primarily in agency instruments or certificates of deposit.

Investments in eligible investment pools are "diversified" by the very nature of their inclusion in a very large and active pool of investments. Consequently, concentrations of investments in pools represent a lower risk than concentrations in such individual instruments as agency discount notes or certificates of deposit. The potential characteristics and performances of the various available investment pools and no load mutual funds may vary widely depending on the composition and management of those entities. Any categorical or summary conclusion regarding the level of participation in these funds should only be done on a case by case basis by the Finance Committee.

d. Required Liquidity - The City will generally be able to precisely quantify the level and timing of funding required for some purposes such as debt service and debt service reserve requirements. Other requirements may be relatively less predictable in terms of either timing, amount, or both. Other factors held equal, diversity may require less emphasis in predictable versus unpredictable portfolios.

C. <u>Yield</u>

Unless otherwise indicated, pooled portfolios shall seek to achieve a yield of at least 1.02 times the average rate of return of the U.S. Treasury yield curve. This measurement shall be determined by comparing the yield of the pools with the point on the Treasury curve that corresponds to the weighted average maturity of the pools. Yield objectives shall at all times be subordinate to the objectives of safety and liquidity.

D. <u>Marketability</u>

The Investment Officer will insure that marketability maintained in the pooled operating portfolios is sufficient to reasonably assure that investments could be liquidated if cash needs occur prior to the maturity date of the investments.

E. <u>Pooled Investment Structure</u>

1. General - The City will group investment instruments into a number of "pooled investment groups". These groups will reflect characteristics of maturity limits, diversity, and liquidity, commensurate with the underlying purpose for which the investments are intended to ultimately fund. Under this approach various individual investment instruments will comprise the total pool type. Individual funds will share equity interests in the assets and earnings of each pool (or pools), equal to their proportionate contributions to the pool (or pools). A pooled investment approach should provide several advantages over a system that seeks to procure specific investment instruments for specific fund types and financial resources.

2. Advantages - The advantages of pooling investments include:

a. Yield Enhancement - Pooling provides economies of scale that will allow purchases of larger denominations of specific investment instruments. Larger blocks of purchases typically yield greater returns than otherwise equivalent but smaller blocks. Larger blocks typically minimize transaction costs associated with the purchase, delivery, and safekeeping of investment instruments.

b. Improved Diversity - These same economies of scale enhance diversification of investment type, issuer, and maturity relative to individual purchases.

c. Improved Liquidity - Pooling allows greater flexibility to "ladder" maturity dates, thus reducing the probability of a need to liquidate an instrument prior to stated maturity.

3. Basic Pool Requirements - The City requires the following basic types of pools:

a. Short Term/Operating - Most of the City's fund types contain operating capital required to finance the particular activities for which the fund is responsible. Normal operations require ready access to financial resources. Capital assets will likely be expended within one budgetary cycle (one fiscal year). Cash flow projections are reasonably predictable but occasional circumstances may require unforeseen or unpredicted cash requirements. Financial resources in this category should be maintained at relatively short levels (usually one year or less). Due to the potential unpredictability of events, diversity and liquidity receive more relative emphasis than pools whose combined capital is to be disbursed on a more predictable schedule.

b. Long Term/Non-Operating Portfolio - Various fund types may contain financial assets in excess of the amounts necessary to fund the sum of operating costs and operating reserves. Other financial assets may be designated for projects scheduled to be implemented beyond the current operating period. The pool structured to invest these assets will require a longer maximum maturity limit than the operating pool. The size of the pool may vary widely over time. The pool will expand rapidly with the receipt of bond fund proceeds and contract as this capital is used for project construction. Since pool size influences the ability to achieve diversity and since diversity further influences the probability of occasional liquidation before maturity, specific categorical goals for these efforts will vary under existing circumstances.

c. Yield Restricted Portfolio - Proceeds from bond issuance’s subject to arbitrage restrictions may necessitate yield restriction under some market conditions. Length of investment maturity may be dependent on market conditions as well as cash flow needs. The size of the pool may vary widely over time. Since pool size influences the ability to achieve diversity and since diversity further influences the probability of occasional liquidation before maturity, specific categorical goals for these efforts will vary under existing circumstances.

This pool shall be structured to provide a yield equal to at least 1.02 times the average rate of return of the U.S. Treasury yield curve, unless that return exceeds the maximum rates allowable under existing arbitrage provisions. In such instances yield will be restricted to the allowable maximum.

d. Debt Service Reserve Portfolio - These reserves are usually specifically defined in terms of amount and size. Liquidity and diversity require relative less emphasis than the shorter term operating portfolio.

Bond covenants typically require that reserve balances be maintained with a third party financial institution or paying agent. These institutions invest deposited reserves on behalf of the city and indirectly on the behalf of investors in whose interests the reserves are established. In such instances, the City may contract with such parties who will operate in the capacity of an investment advisor. These relationships will be approved by the City Council. The investment advisors will be confined to the particular instruments and parameters specified as appropriate for this pool of funds.

e. Interest & Sinking Fund Reserve - These reserves are usually specifically defined in terms of amount and size. Liquidity and diversity require relative less emphasis than the shorter term operating portfolio.

Bond covenants typically require that reserve balances be maintained with a third party financial institution or paying agent. These institutions invest deposited reserves on behalf of the city and indirectly on the behalf of investors in whose interests the reserves are established. In such instances, the City may contract with such parties who will operate in the capacity of an investment advisor. These relationships will be approved by the City Council. The investment advisors will be confined to the particular instruments and parameters specified as appropriate for this pool of funds.

F. Specific Investment Strategies

1. Short Term/Operating Funds - This pooled investment group includes the total of cash and investments available for current operations plus all required operating reserves of the following fund types: The general fund, internal service funds, debt service funds, special revenue funds, and enterprise funds. A key investment strategy for operating funds is to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar weighted average maturity of operating funds may not exceed one year. The maximum maturity of an individual investment shall not exceed two years. The diversification of the portfolio is unrestricted in ownership of U.S. Treasury Bills, U.S. Treasury Notes, or the State sponsored investment pool (Investment pool). Diversification and limitations among the remaining investment options will be determined and approved by the City of Burleson's Finance Committee, in light of existing market conditions. Unless otherwise approved, the total of the remaining investment instruments may not exceed 50% of the portfolio value (measured at cost).

2. Long Term/Non-Operating Funds - The primary revenue source of this pooled investment group is bond proceeds (which are typically subject to arbitrage yield limitations). The category also includes any amount of cash and investments in excess of the estimated required operating reserves in the general fund, enterprise funds, internal service funds, or debt service funds. A key investment strategy is to assure that anticipated cash flows are matched with adequate investment liquidity. An additional investment strategy is to provide additional income to offset rising costs for capital projects. The maximum weighted average maturity of the portfolio shall not exceed two years. The maximum maturity of an individual investment shall not exceed three years. The diversification of the portfolio is unrestricted in ownership of U.S. Treasury Bills, U.S. Treasury Notes, the State sponsored investment pool, or United States government agency issues. Diversification among the remaining investment options will be restricted to 75% of the portfolio value (measured at cost) unless otherwise approved by the City Council and approved by the City of Burleson's Finance Committee.

3. Yield Restricted Portfolio - A primary investment strategy is to assure that anticipated cash flows are matched with adequate investment liquidity. A further investment strategy is to limit investment yields to arbitrage ceilings. The maximum maturity of an individual investment shall not exceed three years. The maximum weighted average maturity of this portfolio shall not exceed two years. The diversification of the portfolio is unrestricted in ownership of U.S. Treasury Bills, U.S. Treasury Notes, the State sponsored investment pool, or United States government agency issues. Diversification among the remaining investment options will be determined and approved by the City of Burleson's Finance Committee, in light of existing market conditions.

4. Debt Service Reserve Funds - A primary investment strategy for debt service reserve funds is to provide income to the reserve portions of revenue bonds. Because the investments may be subject to arbitrage yield restrictions, the secondary investment strategy is to attempt to invest at a yield equal to the arbitrage limit applicable to the reserves. The maximum maturity of an individual investment shall not exceed ten years. The diversification of the portfolio is unrestricted in ownership of U.S. Treasury Bills, U.S. Treasury Notes, the State sponsored investment pool, or United States government agency issues. Diversification among the remaining investment options will be determined and approved by the City of Burleson's Finance Committee, in light of existing market conditions.

5. Debt Service Sinking Funds - The primary investment strategy for debt service sinking funds is to match investment maturities with debt service payment requirements. The securities must have an active secondary market. The maximum maturity of an individual

investment shall not exceed five years unless a specific longer maturity is legally required. The diversification of the portfolio is unrestricted in ownership of U.S. Treasury Bills, U.S. Treasury Notes, the State sponsored investment pool, or United States government agency issues. Diversification among the remaining investment options will be determined and approved by the City of Burleson's Finance Committee, in light of existing market conditions.

Portfolio Type Summary

A summary of the composition of each portfolio is included on attachment "A".

ATTACHMENT A

FUND / CAPITAL TYPE	PORTFOLIO TYPE: Short Term / Operating	Long Tern / Non Oper	Yield Rest	Dt Svc Resv	I & S
General					
Operating	Yes	No	No	No	No
Non–operating	Yes	Yes	No	No	No
Water & Sewer					
Operating	Yes	No	No	No	No
Non–operating	Yes	Yes	No	No	No
Bond Proceeds					
Yield Restricted	Yes(1)	Yes(1)	Yes	No	No
Non–yield restricted	Yes	Yes	No	No	No
Reserve					
Yield Restricted	No	No	No	Yes	No
Non–yield restricted	No	No	No	Yes	No
Sinking Fund					
Yield Restricted	No	No	No	No	Yes
Non–yield restricted	No	No	No	No	Yes
Dt Svc					
Total Avail funds	Yes	No	No	No	No
Capital Proj					
Yield Restricted	Yes(1)	Yes(1)	Yes	No	No
Non–yield restricted	Yes	Yes	No	No	No
Special Revenue					
Total Avail funds	Yes	No	No	No	No
Internal Svc					
Operating	Yes	No	No	No	No
Non–operating	Yes	Yes	No	No	No

(1) Providing that the yield will not exceed earnings limits.