



**City of Round Rock, Texas  
Investment Policy & Strategy  
January 14, 2016**

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**City of Round Rock, Texas**  
**Investment Policy**  
**January 14, 2016**

**I. Purpose**

The Investment Policy of the City of Round Rock, Texas, is adopted in accordance with Chapter 2256, Texas Government Code, the Public Funds Investment Act (the “Act”). This Policy establishes guidelines for the Investment Officers with regard to how City funds will be invested. This Policy also establishes guidelines for periodic review and reporting of the investments.

**II. Scope**

This Investment Policy applies to all aspects of investing the financial assets for the City of Round Rock, Texas. This applies to all funds reported in the City’s Comprehensive Annual Financial Report and include the General Fund, Special Revenue Funds, including the Round Rock Transportation & Economic Development Corporation, Debt Service and Debt Reserve Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds and any new funds created by the City and any funds managed by the City of Round Rock, Texas, as trustee or agency, unless exempted by law. In addition to this Policy, bond funds established by bond ordinances shall also be managed by their governing ordinances and all applicable State and Federal Law.

All funds covered by this Investment Policy shall be invested in accordance with the Public Funds Investment Act as amended from time to time. (Texas Government Code, Ch. 2256.)

**III. Investment Objectives & Strategy**

**A. OBJECTIVE:**

It is the policy of the City of Round Rock that, giving due regard to the safety and risk of investments, all available funds shall be invested in conformance with State and Federal Regulations, applicable bond covenants and ordinances, and this adopted Investment Policy. The primary objectives for investment activities are listed in priority order.

**1. Suitability**

Understanding the suitability of the investment to the financial requirements of the City is important. The needs and limitations of each group of funds must be considered. Any investment eligible in the Investment Policy is suitable for all City funds.

## **2. Safety of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they have resulted from securities defaults or erosion of market value. All investments are to be of high quality instruments with no perceived default risk. Market price fluctuations will, however, occur.

With foremost emphasis on safety of principal (i.e. avoidance of capital losses), the Investment Officers will ensure that preservation of capital and protection of principal in the overall portfolio is maintained. Speculation is prohibited.

## **3. Maintenance of Adequate Liquidity**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by maintaining appropriate cash equivalent balances, matching investment maturities with anticipated cash flow requirements; investing in securities with active secondary markets; and maintaining appropriate portfolio diversification.

## **4. Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. An efficient market is generally defined as having a bid-asked price relationship being no greater than 1/4 of 1 percent of principal value.

## **5. Diversification**

Diversified investment maturities shall provide monthly cash flow based on the anticipated operating needs of the City. Short term financial institution deposits, investment pools, money market mutual funds and staggered maturities of securities shall provide timely liquidity and may be utilized.

## **6. Yield**

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The comparative yield of a like-term treasury security shall be the minimum yield objective.

## **B. STRATEGY:**

The investment objectives above apply to all funds covered by this policy. Investment strategies and guidelines by fund-type are as follows:

## **1. Pooled Funds**

Pooled Funds comprise the majority of the City's portfolio and include all operating funds and long term reserves. Investment strategies for pooled funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will minimize volatility while providing competitive yields on City funds. Daily liquidity for operations is required first. Reserves established in accordance with the City's cash reserves policy or designated for specific purposes and time frames may be invested for longer terms.

## **2. Debt Service Funds**

Investment strategies for Debt Service Funds have as their primary objectives the assurance of investment liquidity to cover the debt service obligations on the required dates. Surplus fund outside the debt service dates will be invested according to investment targets and strategies for Pooled Funds.

## **3. Debt Service Reserve Funds**

Debt Service Reserve Funds are reserves required by bond covenant or other contractual requirement to be maintained through the life of the debt issue. These funds generally do not have a need for liquidity, and may be invested in longer term maturities within the overall guidelines of this Policy.

## **4. Capital Project and Special Purpose Funds**

These funds include both bond proceeds and operating funds set aside for identified Capital Projects or Special Purposes. The funds should be invested to match projected cash flow requirements of projects with sufficient liquidity to meet unanticipated project outlays. In general, the final maturity dates of securities should not exceed the expected project completion date(s) and meet all underlying bond covenants, where applicable.

## **IV. Standard of Care**

### **A. PRUDENCE**

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. The standard of care shall be applied to the context of managing the overall portfolio.

## **B. DELEGATION OF AUTHORITY**

The Chief Financial Officer, Deputy Chief Financial Officer, the Accounting Manager, and the Treasury Accountant are hereby designated as the Investment Officers of the City of Round Rock, Texas, and are responsible for investment decisions and activities consistent with this Investment Policy.

The Investment Officers shall be responsible for all transactions and compliance with the internal controls, insure all safekeeping, custodial, and collateral duties consistent with this Investment Policy, as well as establishing and maintaining written procedures for cash management. The Investment Officers shall maintain timely, accurate and systematic records of all investments, maturities and earnings. Bonding of all staff with financial signatory authority is required and such bonding requirements will also apply to those individuals authorized to place, purchase or sell investment instruments. Bonding will protect the public against loss from possible embezzlement and malfeasance.

## **C. TRAINING**

It is the City's policy to provide training required by the Public Funds Investment Act Section 2256.008(a)(2) through courses and seminars offered in compliance with the Act in order to insure the quality and capability of the Investment Officers in making investment decisions.

All investment training shall be from an independent source approved by the City Council. The following sponsors are hereby approved:

- A. Government Finance Officers Association (GFOA and GFOAT);
- B. Texas Society of Certified Public Accountants (TSCPA);
- C. Texas Municipal League (TML);
- D. Government Treasurer's Organization of Texas (GTOT);
- E. Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits;
- F. Center for Public Management at the University of North Texas; or
- G. Alliance of Texas Treasury Associations (ATTA)

## **D. ETHICS**

The Investment Officers 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. Furthermore, in accordance with the Public Funds Investment Act, an Investment Officer who has a personal business relationship with a firm or is related to individuals seeking to sell to the Investment Officer must disclose such relationships in accordance with Section 2256.005 of the Public Funds Investment Act.

## **E. LIMITATION OF LIABILITY**

The Investment Officers acting in accordance with this Policy and the City's Investment Strategy and exercising due diligence shall be relieved of personal liability for an individual investment's performance provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

## **F. INTERNAL CONTROLS**

The Investment Officers shall establish a system of internal controls, which shall be documented in writing and reviewed periodically by the City's independent auditors. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions. Dual controls of all investment activities will consistently be maintained by the Investment Officers.

The Investment Officers shall develop and maintain written administrative procedures for the operation of the investment and cash management program, consistent with this Investment Policy.

## **V. Authorized Investments**

### **A. AUTHORIZED INVESTMENTS**

The following is a list of authorized and legal investment options:

- 1) Obligations of the United States or its agencies and instrumentalities, excluding mortgage backed securities;
- 2) Direct obligations of the State of Texas or its agencies and instrumentalities;
- 3) Other obligations the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
- 4) 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;
- 5) Certificates of Deposit as authorized under the Act;

- 6) Repurchase Agreements which are fully collateralized as authorized by the Act. Flex repurchase agreements may be used for capital project funds but will not extend past the anticipated expenditure schedule;
- 7) Commercial Paper rated A1/P1 or better as authorized by the Act;
- 8) AAA-Rated Money Market Mutual Funds as authorized by the Act, which strive to maintain a \$1 NAV.
- 9) Local government investment pools as authorized by and compliant with the Act.
- 10) FDIC insured *Brokered Certificate of Deposit* securities purchased from a broker or a bank with a main or branch office in Texas, delivered versus payment to the City's safekeeping agent.
- 11) Fully insured or collateralized interest bearing accounts from any bank in Texas, including those accounts utilizing a FDIC insurance spreading program acceptable to the City.

## **B. PROHIBITED INVESTMENTS**

This Policy bestows the authority upon the Investment Officer to determine certain investment instruments as unsuitable for the City even though those investments may be authorized by this Policy and/or the Public Funds Investment Act. Additionally, certain investments are expressly prohibited by the Public Funds Investment Act. Those prohibited investments are:

- 1) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no interest;
- 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 of greater than 10 years; and
- 4) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## **C. VALUATION**

The Investment Officer(s) shall monitor, on no less than a quarterly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. An investment that requires a minimum rating under this Policy and/or the Public Funds Investment Act does not qualify as an authorized investment during the period the investment does not have the minimum rating required by the PFIA. The City shall

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take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating.

The Investment Officer shall monitor, on no less than a quarterly 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 shall insure that full FDIC insurance is maintained.

#### **D. PROTECTION OF PRINCIPAL**

The City shall seek to control the risk of loss due to the failure of an issuer or grantor. Such risk shall be controlled by investing only in the safest types of investments as defined in this Policy; by qualifying the broker, dealer and financial institution with whom the City will transact; by collateralization as required by law; and through portfolio diversification by maturity and type.

The purchase of individual securities shall be executed “delivery versus payment” through the City’s safekeeping agent. By so doing, City funds are not released until the City has received, through the safekeeping agent, the securities purchased.

#### **E. DIVERSIFICATION BY INVESTMENT TYPE**

Diversification by investment type is primarily intended to reduce the credit risk inherent to a particular issuer or investment type. The City will diversify its investments by security type and institution.

<b><u>Investment Type</u></b>	<b><u>Portfolio Limitation</u></b>
1) U.S. Government Agencies and Instrumentalities	75%
2) States and their Agencies, Counties, Cities and Other Political Subdivisions of a State	35%
% of any one (1) issuer	5%
3) Commercial Paper	10%
% of any one (1) issuer	5%
4) Money Market bank accounts	50%
5) Local government investment pools	100%
6) Certificates of Deposit (Depository & Brokered)	75%

Bond proceeds may be invested in a single security or investment if the Investment Officers determine that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage recordkeeping and calculation.

#### **F. DIVERSIFICATION BY INVESTMENT MATURITY AND WEIGHTED AVERAGE MATURITY**

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. The weighted average maturity will

be determined on a total portfolio basis with a maximum of 540 days and maximum maturity for an individual security or CD shall not exceed 3 years.

Maturity guidelines by fund are as follows:

1) Pooled Funds

Pooled Funds are a pooling of operating funds needed for day to day operations along with special revenue funds, internal service funds, and any other funds that do not fall into one of the three (3) categories listed below.

Maturity Limitation: The maximum allowable maturity for an individual investment shall be three (3) years.

2) Debt Service Funds

Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment.

Maturity Limitation: The Investment Officers shall invest in such a manner as not to exceed an “unfunded” debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investments available to satisfy said payment.

3) Debt Service Reserve Funds

Market conditions, Bond Ordinance constraints and Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy.

Maturity Limitation: Maturities shall generally not exceed the call provisions of the Bond Ordinance and shall not exceed the final maturity of the bond issue or three years, whichever is less.

City funds that are considered “bond proceeds” for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when arbitrage rebate rules require refunding excess earnings. All earnings in excess of the allowable arbitrage earnings will be made available for any necessary payments to the U.S. Treasury.

4) Capital Project and Special Purpose Funds

Maturity Limitation: Funds used for construction programs have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Bond proceeds (excluding reserve and debt service funds) shall generally be limited to the cash flow requirements or the “temporary period” as defined by Federal tax law. During the temporary period bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds

subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

## **VI. Relationships with Financial Institutions and Firms**

### **A. PRIMARY DEPOSITORIES**

Primary Depositories shall be selected through the banking service procurement process, which shall include a formal request for applications no less than every five (5) years. In selecting the primary depository, the creditworthiness of institutions shall be considered and the Investment Officers shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. The City's primary depository contract and other financial relationships for banking services are outside the scope of this Investment Policy; however, all deposits and collateral are subject to compliance with the PFIA.

### **B. SELECTION AND COMPLIANCE OF INVESTMENT PROVIDERS**

An investment provider offering to engage in an investment transaction with the City must execute a written instrument stating that the qualified representative has received and thoroughly reviewed the Investment Policy of the City. The qualified representative also must acknowledge that the firm has implemented reasonable procedures and controls to preclude transactions conducted between the City and the firm that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, or requires an interpretation of subjective investment standards. The Investment Officers may not acquire or otherwise obtain any authorized investment from a person who has not delivered to the City an instrument in substantially the form described above.

Broker/Dealer institutions or firms may qualify under this section:

- 1) Security Dealers which are the approved and designated Dealers of the Federal Reserve Bank of New York "Primary Dealers" and approved by City Council.
- 2) Security Dealers and Brokers which are not designated as "Primary Dealers" but which are approved individually by the City Council.

Addendum A is the list of brokers/dealers who have qualified and are hereby approved to conduct business with the City as required by the Act. The qualified broker/dealer list must be reviewed and approved by City Council at least annually.

## **VII. Safekeeping and Collateralization**

To protect against potential fraud and embezzlement, investments shall be secured through third party custody and safekeeping procedures.

### **A. SAFEKEEPING & CUSTODY**

All security purchases and trades conducted for the City of Round Rock, Texas will be settled and protected by the City's contracted third party safekeeping agent. The use of the Delivery Versus Payment (DVP) procedure will be continually used for investment securities transactions, purchases and sales. The City shall authorize the release of funds only after its safekeeping agent has received securities or receipt for same into the City's safekeeping account.

Securities owned by the City under repurchase agreements shall be secured by written City agreement and all securities will be moved on a DVP basis.

The City shall approve all third party custodial agents for the custody of securities pledged to the City as collateral to secure demand or time deposits.

Safekeeping and custody procedures shall be reviewed annually by the independent auditor.

### **B. COLLATERALIZATION REQUIREMENT**

The City, in accordance with state statute, requires all City funds held by financial institutions above the FDIC insurable limit to be collateralized with securities or letter of credit issued to the City by the Federal Home Loan Bank. Securities held as collateral shall have a market value equaling at least 102% of the total value of City funds held and all securities shall be placed with a third party custodial agent. *Collateral may be substituted or released only with the written authorization of an Investment Officer.* Allowable collateral may consist only of the following securities as permitted under the Public Funds Collateral Act (Texas Government Code, Ch. 2257).

- Obligations of the US Government, its agencies and instrumentalities including mortgage backed securities and CMOs which pass the *bank test as defined by the Federal Reserve.*
- Obligations of any US state, agencies, counties, cities and other political subdivisions rated as to investment quality by at least one nationally recognized rating agency.

A monthly report listing the collateral must be provided directly from the Custodian to the City.

Financial institutions serving as City Depositories will be required to sign a Depository Agreement with the City. The "Security for Deposits" portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- 1) the Agreement must be in writing;
- 2) the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;

- 3) the Agreement must be approved by the Board of Directors or the Bank Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- 4) the Agreement must be part of the Depository's "official record" continuously since its execution.

## **VIII. Portfolio Reporting and Review**

### **A. REPORTING**

As required by law, the Investment Officers shall submit a written investment report, prepared in accordance with the Act, signed by each Investment Officer of the City within a reasonable time after the end of each fiscal quarter to the City Council detailing the investment position for the previous quarter. Monthly market values will be obtained from the City's investment advisor, or other source believed to be reliable, in order to monitor the portfolio's position. "Weighted Average Yield to Maturity" shall be the standard for calculating portfolio rate of return.

- 1) For pooled investments – the report must
  - a. state the beginning book value and market value of the pool portfolio for the reporting period,
  - b. changes to the book value and market value during the reporting period
  - c. the ending book value and market value of the portfolio and
  - d. the fully accrued interest for the reporting period.
- 2) For separately invested assets -
  - a. the report must state the book value and market value for each investment at the beginning and end of the reporting period
  - b. the report also must disclose the stated maturity date for each separate investment and must show the specific fund from which moneys were received to purchase the investment.
- 3) The report must state compliance of the investment portfolio with the City's Investment Strategy and relevant provisions of the Public Funds Investment Act.

### **B. ANNUAL REVIEW**

This Policy shall be reviewed and adopted annually by the City Council.

### **C. EXTERNAL AUDIT**

In accordance with the Public Funds Investment Act, in conjunction with the City's annual financial audit, a compliance audit of management controls on investments and adherence to the City's established investment policies shall be performed. An annual review of the City's quarterly reports will also be performed by an independent auditor with the results being presented to the City Council

**CITY OF ROUND ROCK, TEXAS**  
**LIST OF AUTHORIZED BROKER/DEALERS**

1.	<b>Bank of America/Merrill Lynch *</b> 901 Main Street Dallas, TX 75202 214-209-2015	7.	<b>Morgan Stanley *</b> 717 Texas Avenue, Ste 3050 Houston, TX 77002 800-324-2708
2.	<b>Bonwick Capital Partners, LLC</b> 135 S LaSalle St, Suite 1930 Chicago, IL 60603 844-708-0850	8.	<b>Mutual Securities</b> 501 W. Broadway San Diego, CA 92101 877-664-6133
3.	<b>Coastal Securities</b> 920 Memorial City Way, Suite 11 Houston, TX 77024 800-681-4121	9.	<b>Piper Jaffray &amp; Co</b> 111 SW Fifth Street, Ste 1900 Portland, OR 97204-3604 877-664-6133
4.	<b>Duncan Williams Inc</b> 9801 Westheimer #302 Houston, TX 77042 800-266-5652	10.	<b>RBC Capital Markets, LLC *</b> 2711 N. Haskell Avenue, Suite 2500 Dallas, TX 75093 866-410-5833
5.	<b>Hilltop Securities Company</b> 325 North St. Paul Street, Suite 800 Dallas, TX 75201-4652 877-887-3792	11.	<b>Wells Fargo Brokerage *</b> 1445 Ross Ave Dallas, TX 75202 214-777-4018
6.	<b>Frost Capital Markets</b> 100 West Houston Street San Antonio, TX 78296 800-438-4891		

\*Federal Reserve Primary Dealer