



**City of Round Rock, Texas
Investment Policy & Strategy
December 2, 2021**

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City of Round Rock, Texas
Investment Policy
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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 regarding 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 Annual Comprehensive 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 1/10 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 objective the assurance of investment liquidity to cover the debt service obligations on the required dates. Surplus funds 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 and bond covenants.

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 investments 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, Controller, and 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, ensuring all safekeeping, custodial, and collateral duties remain 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) through courses and seminars offered in compliance with the Act to ensure the quality and capability of the Investment Officers in making investment decisions. In accordance with State Law, Investment Officers must accumulate ten hours of investment training within twelve months of attaining the position of Investment Officer. Thereafter, eight hours of training must be accumulated every two-years within the period that begins on the first day of the City's fiscal year and ends on the last day of the next fiscal year.

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

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

- 1) Government Finance Officers Association (GFOA and GFOAT);
- 2) Texas Society of Certified Public Accountants (TSCPA);
- 3) Texas Municipal League (TML);
- 4) Government Treasurers' Organization of Texas (GTOT);
- 5) Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits;
- 6) Center for Public Management at the University of North Texas; or
- 7) 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 within the second degree by consanguinity or affinity to individuals seeking to sell

investments to the City must disclose such relationships in accordance with Section 2256.005(i) of the Public Funds Investment Act. Such disclosure should be made to the Texas State Ethics Commission and to the City Council.

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 developments.

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.

It is the policy of the City to provide a competitive environment for all individual investment purchases and sales, and financial institution, money market mutual fund, and local government investment pool selections. The investment officer is authorized to solicit bids for investments orally, in writing, electronically, or in any combination of these methods. At least three providers must be contacted in all transactions involving individual securities. For those situations where it may be impractical or unreasonable to receive three quotes for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the transaction quote/bid sheet. All quotes received must be documented and filed for auditing purposes.

V. AUTHORIZED INVESTMENTS

A. Authorized Investments

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

- 1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, but 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 (FDIC) 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 (CD) as authorized under the Act;
- 6) Repurchase Agreements which are fully collateralized as authorized by the Act. Flexible 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 no-load government money market mutual funds as authorized by and compliant with the Act;
- 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, settled delivery versus payment to the City's safekeeping agent; and
- 11) Fully insured or collateralized interest-bearing accounts as authorized under the Act, including those accounts utilizing an FDIC insurance spreading program acceptable to the City.

B. Prohibited Investments

This Policy bestows the authority upon the Investment Officers 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 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 (CMO) that have a stated final maturity date 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. Monitoring Credit Risk

The Investment Officers 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 Act. The City shall take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating. The City is not required to liquidate investments that were authorized investments at the time of purchase.

The Investment Officers 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 take steps to ensure that full FDIC insurance is in place as soon as the lapse in FDIC coverage is detected.

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 maintaining 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.

<u>Investment Type</u>	<u>Portfolio Limitation</u>
1) U.S. Government and its Agencies and Instrumentalities	75%
2) States and their Agencies, Counties, Cities and Other Political Subdivisions of any State	35%
% of any one (1) issuer	5%

3) Commercial Paper	10%
% of any one (1) issuer	5%
4) Money market bank accounts	75%
5) Local government investment pools	100%
6) Government money market mutual funds	100%
7) Certificates of Deposit (Depository & Brokered)	85%

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

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 three (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 Act.

B. Selection and Compliance of Investment Providers

An investment provider offering to engage in an investment transaction with the City shall be presented with the Investment Policy of the City. All investment providers must acknowledge receipt of the Investment Policy.

The qualified representative of a local government investment pool or discretionary investment management firm must execute a written instrument to acknowledge the following:

- 1) the business organization has received and reviewed the City's Investment Policy; and
- 2) the business organization has implemented reasonable procedures and controls to preclude transactions conducted between the City and the business organization 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, requires an

interpretation of subjective investment standards, or relates to investment transactions of the City that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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 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 the same amount into the City's safekeeping account.

Securities owned by the City under repurchase agreements shall be secured by a written Master Repurchase Agreement, or similar 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.

All securities and collateral shall be held in an account in the City's name as evidenced by safekeeping receipts of the institutions with which the securities are placed.

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

B. Collateralization Requirements

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 letters of credit issued to the City by the Federal Home Loan Bank. Money Market Accounts and Certificates of Deposits require collateral or FDIC coverage for all principal and accrued interest. Letters of Credit pledged as collateral for

Certificates of Deposit and Money Market Accounts must equal 100% of total value of principal and anticipated interest in excess of FDIC insurance levels. Securities held as collateral shall have a market value equaling at least 102% of the total value of City funds, plus accrued interest, held in excess of FDIC insurance levels, 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).

- 1) Obligations of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities and CMOs which do not constitute a high-risk mortgage security *as defined by the Public Funds Collateral Act.*
- 2) Obligations of any U.S. 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 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 must 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, 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. state changes to the book value and market value during the reporting period,
 - c. state the ending book value and market value of the portfolio, and

- d. state the fully accrued interest for the reporting period.
- 2) For separately invested assets – the report must:
- a. state the book value and market value for each investment at the beginning and end of the reporting period,
 - b. disclose the stated maturity date for each separate investment, and
 - c. 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 Policy & 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

Branch Banking & Trust Company

Cantor Fitzgerald & Co.

Duncan Williams, Inc.

Frost Capital Markets

FHN Financial

Great Pacific Securities

Hilltop Securities Co.

Multi-Bank Securities, Inc.

Oppenheimer & Co., Inc.

Piper Sandler Company

PNC Financial Services Group, Inc.

RBC Capital Markets, LLC

Rice Financial

SAMCO Capital Markets, Inc.

Stifel Fixed Income Capital Markets

Wells Fargo Securities