

**TOWN OF COPPER CANYON  
RESOLUTION NO. 23-08**

**A RESOLUTION OF THE TOWN OF COPPER CANYON, TEXAS APPROVING THE INVESTMENT POLICY, WHICH IS ATTACHED HERETO AND INCORPORATED HEREIN AS EXHIBIT A; AND APPOINTING STEVE HILL AS OVERSIGHT LIAISON OF THE TOWN COUNCIL OF THE TOWN OF COPPER CANYON; AND PROVIDING AN EFFECTIVE DATE.**

WHEREAS, the Council of the Town of Copper Canyon has been presented with the Town of Copper Canyon Investment Policy for approval, in accordance with Chapter 2256 of the Public Funds Investment Act, Chapter 2256 Texas Gov't Code.

**NOW, THEREFORE, THE COUNCIL OF THE TOWN OF COPPER CANYON TEXAS HEREBY RESOLVES:**

**SECTION 1:** That the Town of Copper Canyon hereby approves the investment policy which is attached hereto and incorporated herein by reference as Exhibit A.

**SECTION 2:** That the Town of Copper Canyon hereby appoints Steve Hill as oversight liaison of the Town Council of Copper Canyon; and, shall serve at the pleasure of Town Council of the Town of Copper Canyon.

**SECTION 3:** That this resolution shall become effective immediately from and after its passage.

**PASSED AND APPROVED this \_\_\_\_\_ day of \_\_\_\_\_ 2023**

**TOWN OF COPPER CANYON, TEXAS**

**By: \_\_\_\_\_**

**Mayor**

**ATTEST:**

\_\_\_\_\_  
**Town Secretary – Sheila B. Morales, TRMC**

# **Exhibit A**

## **(Copper Canyon Investment Policy)**



**TOWN OF COPPER CANYON**

**INVESTMENT POLICY**

# **TOWN OF COPPER CANYON INVESTMENT POLICY**

## **PREFACE**

It is the policy of the Town of Copper Canyon (the “Town”) that after allowing for the anticipated cash flow requirements of the Town and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for Town funds. The Town’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. The Town will invest public funds in a manner that will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the Town.

The Town is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written Investment Policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the “Act”]) to define, adopt and review a formal investment strategy and policy.

**TOWN OF COPPER CANYON  
INVESTMENT POLICY  
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**Certification of Business Organization Sample Form  
Exhibit B "Investment Officers"**

**1. PURPOSE.** The purpose of this investment policy (the “Policy”) is to set forth specific investment policy and strategy guidelines for the Town in order to achieve the goals of safety and liquidity, achieve a market rate of return, and maintain public trust in all investment activities. On an annual basis, the Town Council shall review the investment strategy and policy and shall approve Policy revisions, if any, by formal resolution.

**2. INVESTMENT STRATEGY.** The Town maintains a comprehensive and proactive cash management program that is designed to monitor and control all Town funds to ensure maximum utilization and yield a market rate of return. (For the purpose of this policy, a “market rate of return” refers to the approximate interest rate that could be earned by an investor in a specific maturity range at any given point in time. For example, an investor seeking to earn a market rate of return while maintaining an investment portfolio with an average maturity of 90 days, would hope to earn approximately the same as a three-month agency discount note. If the investor earns a rate much higher than this, it might signal an inappropriate level of risk.) The basic and underlying strategy of this program is that all of the Town’s funds are earning interest. It is the responsibility and obligation of the Town to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as now exist and are subject to change.

The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the investment officers. The allowable investment instruments as defined in Section 6 of this Policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require.

2.1 The primary investment strategy and objectives of the Town as specified in this Policy (See Section 4.) are listed below, in their order of importance:

- Safety and preservation of principal;
- Maintenance of sufficient liquidity to meet operating needs;
- Achieve a market rate of return on the investment portfolio; and
- Seek at all times to maintain public trust by adhering to the above stated objectives.

2.2 The list of investments authorized by this Policy intentionally excludes some investments allowed by state law. The restrictions limit possible credit risk and provide the maximum measure of safety. Within the investment objectives, the investment strategy is to utilize authorized investments for maximum advantage to the Town. To increase the interest earnings for funds identified as being available for investment over longer periods of time based upon a cash requirements projection, the Town will consider the following strategies:

2.2.1 **Strategy No. 1.** Diversifying the Town's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the Town Council. An investment pool is an entity created to invest public funds jointly on behalf its' participants and whose investment objectives in order of priority match those objectives of the Town. Funds are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

2.2.2 **Strategy No. 2.** Building a ladder of Investment Policy authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- It is straight-forward and easily understood;
- It represents a prudent diversification method;
- All investments remain within the approved maturity horizon;

- It will normally allow the Town to capture a reasonable portion of the yield curve; and
- It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

2.2.3. **Strategy No. 3.** At this time, the Town does not use an investment management firm. Should the Town determine a need, the following strategy will apply:

Pursuant to the Public Funds Investment Act (Texas Government Code 2256.003), the Town may, at its discretion, contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy. At no time shall the advisor take possession of securities or funds or otherwise be granted discretionary authority to transact business on behalf of the Town. Any contract awarded by the Town Council for investment advisory services may not exceed two years, with an option to extend by mutual consent of both parties.

Duties of the Investment Advisor shall include, but not be limited to, assistance in purchasing securities, securities clearance, producing required reports, pricing the portfolio, performing due diligence on broker/dealers, market monitoring and economic review.

Any Investment Advisor contracted by the Town shall abide by the *Prudent Expert Rule*, whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

2.2.4. **Strategy No. 4.** The Town will maintain portfolio(s) that utilize four specific investment strategy considerations designed to address the unique characteristics of the fund group(s) represented in the portfolio(s):

2.2.4.1 Investment strategies for operating funds and pooled funds containing operating 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 that will experience minimal volatility during economic cycles through diversification by security type, maturity date and issuer. All security types, as authorized by this policy, are considered suitable investments for the operating and pooled funds.

2.2.4.2 Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s). These funds have predictable payment schedules. Therefore investment maturities shall not exceed the anticipated cash flow requirements.

2.2.4.3 Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund. Managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the Town's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue.

2.2.4.4 Investment strategies for special projects or capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Market conditions and arbitrage regulations will influence the investment of capital project funds. When market conditions allow, achieving a positive spread to applicable arbitrage yield is the desired objective, although at no time shall the anticipated expenditure schedule be exceeded in an attempt to increase yield.

2.2.5 **Strategy No. 5 - Hold until Maturity.** The strategy of the Town is to maintain sufficient liquidity in its portfolio so that it does not need to sell a security prior to maturity. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the Town /Treasurer must be obtained. Securities may be sold prior to maturity by the Investment Officer at or above their book value at any time. The result of all sales of securities prior to maturity shall be reported to the Town Secretary/Treasurer within two business days of the sale. The report shall provide the amount of proceeds from the sale, including accrued interest to the date of sale, less the current book value and the dollar amount of gain on the sale.

2.2.6 **Strategy No. 6 - Pooling of Deposits and Investments.** Demand deposit accounts of the Town will be concentrated in no more than four depository organizations. This procedure will maximize the Town's ability to pool cash for investment purposes and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the Town may be eligible to bid on Town investments, subject to the approval of the Town Secretary/Treasurer.

2.2.7 **Strategy No. 7 - Depository Bank Relationships.** This Policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The Town will seek to maintain a depository contract that will be managed to a level that minimizes the cost of the banking relationship to the Town, while allowing the Town to earn an appropriate return on idle demand deposits.

2.2.8 **Strategy No. 8 - Single Pooled Fund Group.** A single strategy is specified, in accordance with the single pooled fund group as defined in this Policy. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the Town.



2.2.9 **Strategy No. 9 - Maximizing Investable Cash Balances.** Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

**3. SCOPE.** The Investment Policy shall govern the investment of all financial assets considered to be part of the Town entity and includes the following funds or fund types: the General Fund, Enterprise Funds, Special Revenue Funds, General Obligation Interest and Sinking Fund, Capital Projects Funds, and any other funds which have been contractually delegated to the Town for management purposes. The Town may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the Town by outside agencies under retirement or deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds.

**4. INVESTMENT OBJECTIVES.** Funds of the Town shall be invested in accordance with all applicable Texas statutes, this Policy and any other approved, written administrative procedures. The four objectives of the Town's investment activities shall be as follows (in the order of priority):

4.1 **Safety of Principal.** Safety of principal invested is the foremost objective in the investment decisions of the Town. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions with whom the Town will transact, and through portfolio diversification. Safety is defined as the undiminished return of the principal on the Town's investments.

4.2 **Liquidity.** The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the Town's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as will provide the liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements, or to otherwise favorably adjust the Town's portfolio, in accordance with Section 2.5 above.

4.3 **Market Rate-of-Return (Yield).** The Town's investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner that seeks to attain a market rate of return throughout budgetary and economic cycles. The Town will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the Town's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the rate of annual income return on an investment, expressed as a percentage.

4.4 **Public Trust.** All participants in the Town's investment program shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might involve a conflict of interest or otherwise impair public confidence in the Town's ability to govern effectively. All officials of the Town having either a direct or indirect role in the process of investing idle funds shall act responsibly as custodians of the public trust.

5. **INVESTMENT RESPONSIBILITY.** As provided in this policy, the daily operation and management of the Town's investments are the responsibility of the following person.

5.1 **Delegation of Authority.** The Town Administrator/ Town Treasurer and his/her Designee **as approved by Town Council** are authorized to deposit, withdraw, invest, transfer or manage in any other manner the funds of the Town. Management responsibility for the investment program is hereby delegated to the Town Secretary/Treasurer who shall establish written procedures for the operation of the investment program, consistent with this Policy. **Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.** All persons involved in investment activities will be referred to in this Policy as "Investment Officers." No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Town Secretary/Treasurer. The system of controls shall be designed to provide reasonable assurance that the assets of the Town are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:

- (1) the cost of a control should not exceed the benefits likely to be derived; and
- (2) the valuation of costs and benefits requires estimates and judgments by management.

Commitment of financial and staffing resources in order to maximize total return through active portfolio management shall be the responsibility of the Town Council.

*5.1.1 The Town Secretary having been duly appointed by the Town Council will be referred to as a Designee Investment Officer consistent with this policy under the management responsibilities delegated to the Town Secretary/Treasurer.*

*5.111 Investment Officers are required to complete training on the Texas Funds Investment Act and related investment issues pursuant to Section 5.5 of this Policy and the Certificate of each Investment Officer is included as an exhibit to this policy.*

5.2 **Prudence.** The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

- 5.2.1 the investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and

5.2.2 whether the investment decision was consistent with the written investment Policy and procedures of the Town.

5.3 **Due Diligence.** The Investment Officer acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments. **The Investment Officers involved in investment transactions shall be bonded.**

5.4 **Ethical Standards and Conflicts of Interest.** All Town Investment Officers having a direct or indirect role in the investment of Town funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. 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 the ability to make impartial investment decisions. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the Town shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the Town shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Town Council.

5.5 **Investment Training.** The Investment Officers shall attend at least one training session of at least four (4) hours of training for investment officers beginning on the first day of the Town's fiscal year (October 1st through September 30<sup>th</sup> ) and consists of the two consecutive fiscal years after that date for a total of 8-hours relating to the officer's responsibility under the Public Funds Investment Act. Initially within twelve (12) months after assuming duties approved by the governing body or a designated investment committee, and attend an investment training session not less than once every two year period that begins on the first day of the Town's fiscal year and consists of the two fiscal years thereafter that date, receiving an additional eight (8) hours of training. Such training from an independent source shall be approved by the Town Council and endorsed by either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, the North Central Texas Council of Governments, or the University of North Texas Center for Public Management.

**6. AUTHORIZED INVESTMENTS.** As stated previously, safety of principal is the primary objective in investing public funds and can be accomplished by limiting two types of risk — credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to repay principal and interest in full. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the Town's primary objective, only certain investments are authorized as acceptable investments for the Town. The following list of authorized investments for the Town intentionally excludes some investments authorized by law. These restrictions are placed in order to limit possible risk and provide the maximum measure of safety to Town funds.

6.1 **Authorized and Acceptable Investments.** The authorized list of investment instruments are as follows:

- (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 of and interest on 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, excluding mortgage-backed securities.
  - Interest only mortgage-backed collateral securities.
  - Principal only mortgage-backed collateral securities
- (4) **Collateralized Certificates of Deposit.** A certificate of deposit issued by a depository institution that has its main office or a branch office in the state and is:
  - guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
  - secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage backed securities of the nature described in Section 2256.009(b) of the Act; or
  - secured in any other manner and amount provided by law for deposits of the Town.

In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principle and interest of each CD federally insured, may be purchased through a selected depository institution with its main office or branch office in Texas.

This depository shall act as the custodian for the various certificates on behalf of the Town.

- (5) **Eligible Local Government Investment Pools.** Public funds investment pools which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code, provided that:
  - **the investment pool has been authorized by the Town Council;**
  - the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;

- the pool shall furnish the Investment Officer investment transaction confirmations with respect to all investments made with it;
  - the pool shall furnish to the Investment Officer monthly reports containing the information required under Section 2256.016(c) of the Texas Government Code;
  - the pool is continuously rated no lower than “AAA” or “AAA-m” or an equivalent rating by at least one nationally recognized rating service;
  - the pool marks its portfolio to market daily;
  - the pool’s investment objectives shall be to maintain a stable net asset value of one dollar (\$1.00); and
  - the pool’s investment philosophy and strategy are consistent with this Policy.
- (6) Regulated No-Load Money Market Mutual Funds. These investments are authorized, under the following conditions:
- the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
  - the fund provides the Town with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
  - the fund has a dollar-weighted average portfolio maturity of ninety (90) days or less;
  - the investment objectives include the maintenance of a stable net asset value of one dollar (\$1.00) per share; and
  - the fund is continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service.
  - The Town may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund.
  - Ineligible for investments of bond proceeds, reserves and debt service funds.
  - Investing entity may not own more than 10% of the fund’s total assets.
  - Must comply with House Bill 1003, 86<sup>th</sup> Legislature
  - Prime money markets are authorized investments.
  - “Non Government” funds come with a floating NAV as well as potential liquidity fees and redemption gates.

- A no-load mutual fund registered with SEC, must have WAM of less than 2-years and limited to PFIA-authorized investments, or has a duration of less than one-year and are limited to investment grade securities, excluding asset-backed securities (“Ultra-Short Bond Fund”)
- (7) Repurchase Agreements, Reverse Repurchase Agreements, Bankers’ Acceptances; Commercial Paper. These investments are authorized for the Town only to the extent that they are contained in the portfolios of approved public funds investment pools in which the Town invests, or as otherwise provided below.
- The direct investment in reverse repurchase agreements, bankers’ acceptances, and commercial paper by the Town is not authorized.
  - Fully flexible repurchase agreements are authorized in this Policy, to the extent authorized under the Public Funds Investment Act (Texas Government Code 2256.001. The use of flex repos shall be limited to the investment of bond proceeds and the maturity date of any such agreement shall not exceed the expected proceeds draw schedule.
- (8) Securities Lending Program
- 100% collateralized, including accrued income
  - Termination at any time
  - Secured by:
    - (i) Securities described in 2256.009, Government Code
    - (ii) Letters of credit
    - (iii) Cash
    - (iv) Collateral must be pledged, held in entity’s name, deposited with a third party.
    - (v) must be placed through primary dealer or Financial Institution doing business in the state of Texas.
- (9) Bankers Acceptances
- 270 days or fewer
  - Liquidated in full at maturity
  - Eligible Federal Reserve Bank collateral
  - U.S. Bank rated not less than A-1 or P-1
- (10) Commercial Paper
- 270 to 365 days
  - Rated not less than A-1 or P-1 by at least two credit rating agencies; one credit rating agency and an irrevocable bank letter of credit.

(11) Guaranteed Investment Contracts

- Authorized investment for bond proceeds
  - (i) defined termination date
  - (ii) secured by Section 2256.009(a)(1)
  - (iii) third party safekeeping
- Term may not exceed 5 years from the date of bond issuance, including reserves and debt service funds.
- To be eligible:
  - (i) must specifically authorize when authorizing bonds
  - (ii) 3 bids
  - (iii) Highest Yield
  - (iv) Drawdown Schedule
  - (v) Reasonable administrative costs

(12) Mineral Rights.

- Municipality may invest funds from oil, gas, or mineral development in any investment authorized by Subtitle B, Title 9, Property Code (“Trusts”)
- Must segregate and account for separately.

(13) CDARS Program

- CDARS program through a broker that is selected from a list adopted by the investing entity as required by Section 2256.025, Government Code, or a financial institution. Both are required to have a main or branch office in the state of Texas.

**6.2 Investment Instruments NOT Authorized.** The following instruments are eligible for investment by local government according to state law, but they have been intentionally prohibited for the Town by this Policy: interest only mortgage-related obligations, guaranteed investment contracts, options, financial futures contracts and, day trading of long-term securities. In addition to these restricted investments, state law specifically prohibits investment in the following securities:

- (1) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

- (2) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- (3) Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- (4) Inverse floater (indexed that adjust opposite to changes in a market index) Collateralized mortgage obligations.

**7. DIVERSIFICATION.** Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of Government securities, as authorized in this Policy, and authorized local government investment pools, no more than fifty percent (50%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.

**7.1 Diversification by Maturities.** The longer the maturity of investments, the greater their price volatility. Therefore, it is the Town’s policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The Town shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire Town portfolio, including funds at the Town’s depository bank(s), shall comprise one pooled fund group, and the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio is two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, may not exceed three (3) years.

**7.2 Diversification by Investment Instrument.** Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

Percentage of  
Portfolio (Maximum)



- U.S. Treasury Obligations 100%
- U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations 80%
- Authorized Local Government Investment Pools 100%
- Fully Collateralized Certificates of Deposit 50%
- SEC-Regulated No-Load Money Market Mutual Funds 10%

7.3 The Town shall invest local funds in investments yielding a market rate-of-return while providing necessary protection of the principal consistent with the operating requirements of this section or written policies.

**8. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.** At this time, the Town does not use Brokers or Dealers. Should the Town determine a need, the following procedures and requirements will apply:

Financial institutions (federally insured banks) with and through whom the Town invests shall be state or national banks domiciled in this state. No public deposit shall be made except in a qualified public depository as established by state laws. Brokers/Dealers authorized to provide investment services to the Town may include only those authorized by the Town Council. All banking services will be governed by a depository contract awarded by the Town Council. In addition, the Town Secretary/Treasurer shall maintain a list of authorized security brokers/dealers, and investment pools that are authorized by the Town Secretary/Treasurer and/or Town Council.

8.1 All financial institutions with whom the Town does business must supply the following as appropriate: (1) **audited financial statements**; (2) proof of National Association of Securities Dealers (NASD) certification; (3) proof of state registration; completed broker/dealer questionnaire; (4) **certification of having read the Town's investment policy signed by a qualified representative of the organization, acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the Town and the organization.**

8.2 An annual review of the financial condition and registration of qualified bidders will be conducted by the Town Secretary/Treasurer. The review may include, but is not limited to, review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and brokers/dealers desiring to conduct business with the Town shall be required to provide any financial data requested by the Town Secretary/Treasurer. Upon completion of the annual review by the Town Secretary/Treasurer, the financial institutions and brokers/dealers desiring to conduct business with the Town shall be approved by the Town Council.

8.3 Selection criteria for federally insured financial institutions shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the financial institution must be located where it has its main office or a branch office in this state.

8.4 The Town Secretary/Treasurer of the Town is responsible for monitoring the investments made by a financial institution and/or broker/dealer to determine that they are in compliance with the provisions of the Investment Policy.

**9. DELIVERY VERSUS PAYMENT.** It is the policy of the Town that all security transactions entered into with the Town shall be conducted on a "**DELIVERY VERSUS PAYMENT**" (DVP) basis through the Federal Reserve System. By doing this, Town funds are not released until the Town has received, through the Federal Reserve wire, the securities purchased. The Town shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the Town. The notification may be oral but shall be confirmed in writing.

**10. SAFEKEEPING AND COLLATERALIZATION.**

10.1 **Safekeeping.** All securities owned by the Town shall be held by its safekeeping agent, except the collateral for bank deposits. The collateral for bank deposits will be held in the Town's name in the bank's trust department, or alternatively, in a Federal Reserve Bank account in the Town's name, or a third-party bank, at the Town's discretion. Original safekeeping receipts shall be obtained and held by the Town. The Town shall contract with a bank or banks for the safekeeping of securities either owned by the Town as part of its investment portfolio or held as collateral to secure time deposits.

10.2 **Collateralization.** Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the Town to require full collateralization of all Town funds on deposit with a depository bank. The market value of the investments securing the deposit of funds shall be at least equal to the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held in the Town's name, in a segregated account at the Federal Reserve Bank or by an independent third party with whom the Town has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the Town in the event the Town has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of the Town are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to the Town and retained by the Town. Any collateral with a maturity over five (5) years must be approved by the Investment Officer before the transaction is initiated. Release of collateral or substitution of securities must be approved in writing by the Investment Officer. Financial institutions serving as Town depositories will be required to sign a "Depository Agreement" with the Town and the Town safekeeping agent. The collateralized deposit portion of the agreement shall define the Town's rights to collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
- the Agreement has to be executed by the Depository and the Town contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors of the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the Town; and,
- the Agreement must be part of the Depository's "official record" continuously since its execution.

10.2.1 The Town may accept the following securities as collateral for bank deposits (V.T.C.A., Government Code, Section 2256.001, et. seq, formerly Article 842a-2, Section 2, V.T.C.S., as amended);

- FDIC coverage;
- U.S. Government securities;
- State of Texas bonds; or,
- Bonds issued by other Texas governmental entities (Town, County, school district, or special districts) with a remaining maturity of twenty (20) years or less. Bonds must be (and must remain) investment quality: that is, with a rating of at least "A" or its equivalent.

10.2.2 For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market or par, whichever is lower. The market value of collateral will always equal or exceed the principal plus accrued interest of deposits at financial institutions.

10.2.3 Financial institutions, with which the Town invests or maintains other deposits, shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to the Town, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The Town and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

**11. INTERNAL CONTROL.** The Town Secretary/Treasurer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. **The internal controls are to be reviewed annually in conjunction with an external independent audit.** This review will provide assurance of compliance with policies and procedures as specified by this Policy. **The Town, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the Town's established investment policy. (Section 2256.005(m) Gov't Code)**

**12. PERFORMANCE.** The Town's investment portfolio shall be designed to obtain a market rate of return on investments consistent with risk constraints and expected cash flow of the Town.

The benchmark for performance that is appropriate for the Town's cash flow cycle will be TexPool (a local government investment pool).

**13. REPORTING.** The Town Secretary/Treasurer shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

13.1 Annual Report. In October following the end of the Fiscal Year the Town Secretary/Treasurer shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Town Council. **The reports prepared by the Town Secretary/Treasurer shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Town Council by that auditor.**

13.2 Methods. The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner that will allow the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the Town Council. The report will include the following:

13.2.1 A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;

13.2.2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;

13.3.3 Additions and changes to the market value during the period;

13.3.4 Fully accrued interest for the reporting period;

13.3.5 Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;

13.3.6 Listing of investments by maturity date;

13.3.7 The percentage of the total portfolio which each type of investment represents; and

13.3.8 Statement of compliance of the Town's investment portfolio with State Law and the investment strategy and policy approved by the Town Council.

### **13.3.9 INTERNAL MANAGEMENT REPORTS:**

#### **13.3.10 Written report not less than quarterly. Report Includes:**

- Investment Position
- Prepared and signed jointly by all investment officers
- Signed by all investment officers
- Summary statement including beginning market value of the reporting period; ending market value for the period; fully accrued interest for the period.
- Book value and market value of each separately invested asset and fund type.
- Maturity Date.
- Account or fund or pooled fund group
- Statement of compliance with investment strategy and the Act

#### **13.3.11 Formerly reviewed annually by independent auditor.**

**14. INVESTMENT POLICY ADOPTION AND AMENDMENT.** The Town's Investment Policy shall be adopted and amended by resolution of the Town Council only. The Town's written policies and procedures for investments are subject to review **not less than annually** to stay current with changing laws, regulations and needs of the Town. Any changes or modifications to this Investment Policy, if any, shall be approved, and adopted by a formal resolution of the Town Council.

## GLOSSARY OF TERMS

**The Investment Policy contains specialized and technical terminology that is unique to cash management and investment activities. The following glossary of terms is provided to assist in understanding these terms.**

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**Affinity.** Related through marriage.

**Agencies.** See U.S. Agency securities.

**Bankers' Acceptances.** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. When discounted and sold in the secondary market, bankers' acceptances become a short-term investment alternative.

**Book Value.** The cost of a security as recorded in the Town's accounting records. For purposes of evaluating a sale of a security, it is a function of the original cost, the amortization of premium or discount, and the accrued interest. Specifically, it is the face value of the security plus the accrued interest plus any unamortized premium or minus and unamortized discount. Book value is often compared to marked value, which is defined below.

**Broker.** A person or company that, for a fee or commission, brings buyers and sellers of securities together.

**Certificate of Deposit.** A time deposit with a specific maturity evidenced by a certificate.

**Collateral.** In general, assets which one party pledges as a guarantee of performance. Specifically, securities pledged by a bank to secure deposits of public monies. In the event of bank failure, the securities become the property of the public entity.

**Collateralized Mortgage Obligations (CMO's).** Securities based on a pool of home mortgages.

**Commercial Paper.** An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most frequently maturities do not exceed 30 days. Almost all commercial paper is rated by a rating service.

**Consanguinity.** Related by blood.

**Coupon.** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. Also, a certificate attached to a bond indicating interest due on a payment date.

**Credit Risk.** The uncertainty that the principal amount of an investment will be returned without loss of value to the default of the borrower.

**CUSIP.** A unique security identification number assigned to securities maintained and transferred on the Federal Reserve book-entry system.

**Dealer.** A person or company that endeavors to profit from buying and selling investments for its own account.

**Delivery Versus Payment (DVP).** A method of delivering securities that requires the simultaneous exchange of the security and the payment. It provides a safeguard against paying for securities before they are received.

**Demand Deposits.** Deposits at a financial institution that are available to the depositor upon the depositor's demand.

**Depository Bank.** The primary bank of the Town. The relationship between the depository bank and the Town is governed by state law and by a depository contract that is approved by the Town Council.

**Discount.** The difference between the cost price of a security and its value at maturity when quoted a lower than face value. A security selling below original offering price shortly after sale is also considered to be at a discount.

**Discount Securities.** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

**Diversification.** The strategy of dividing investments among a variety of securities offering independent risks and yields. Diversification lessens the likelihood of losing the entire portfolio of investments and averages yields among the investment alternatives.

**Federal Deposit Insurance Corporation (FDIC).** A federal agency that insures bank deposits.

**Federal Funds Rate.** The rate of interest at which Federal funds are traded. This rate is currently set by the Federal Reserve through open-market operations.

**Federal Home Loan Banks (FHLB).** Created in 1932, this system consists of 12 regional banks, which are owned by private member institutions and regulated by the Federal Housing Finance Board. Functioning as a credit reserve system, it facilitates extension of credit through its owner members. Federal Home Loan Bank issues are joint and several obligations of the 12 Federal Home Loan Banks.

**Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac).** A stockholder-owned corporation that provides a continuous flow of funds to mortgage lenders, primarily through developing and maintaining an active nationwide market in conventional mortgages.

**Federal National Mortgage Association (FNMA or Fannie Mae).** FNMA, a federal corporation, is the largest single provider of residential mortgage funds in the United States. It is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

**Fully Flexible Repurchase Agreement ("flex repo").** A specialized contract designed for the short-term investment of proceeds available from the sale of municipal bonds, notes and

certificates. Flex repos allow for incremental repurchases, with the buyer/issuer (the Town) retaining the right to force the seller to repurchase all, or a portion of, the sold securities held under repurchase agreement, at any time before the maturity date of the agreement, at a fixed rate for the life of the agreement.

**Hold Until Maturity.** This investment strategy is intended to avoid interest rate risk by maintaining ownership of an investment until it matures. At maturity, the face value of the security is received, but in some cases where a security is sold before maturity, less than the face value and the book value is received. Please see interest rate risk defined below.

**Interest Rate Risk.** The uncertainty of the return of principal on fixed rate securities that are sold prior to maturity. When interest rates rise, the market value of fixed rate securities decreases.

**Internal Control.** Policies and procedures that are established to provide reasonable assurance that specific government objectives are achieved and that assets are safeguarded.

**Investment.** The purchase of securities which, upon analysis, promise safety of principal and a satisfactory return. These factors distinguish investment from speculation.

**Investment Objective.** The aim, goal or desired end of action of the investment activity.

**Investment Pool.** An entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. (Sometimes called Local Government Investment Pool.)

**Investment Strategy.** The overall plan or method proscribed to achieve the investment objectives of the Town.

**Laddered Maturity.** An investment strategy whereby investments are purchased to mature at regular intervals.

**Liquidity.** The measure of an investment's ability to be converted quickly and easily into cash without a substantial loss of value.

**Local Government Investment Pool.** See **Investment Pool**.

**Market Rate of Return.** A general term referring to the approximate interest rate that could be earned by an investor in a specific maturity range at any given point in time. For example, an investor seeking to earn a "market rate of return" while maintaining an investment portfolio with an average maturity of 90 days, would hope to earn approximately the same as a three-month agency discount note. If the investor earns a rate much higher than this, it might signal an inappropriate level of risk.

**Market Risk.** The uncertainty of the value of the Town's portfolio arising from changes in the market conditions of investment securities.

**Market Value.** The price, including accrued interest, at which a security is trading for which it can be readily sold or purchased.



**Maturity.** The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market Mutual Fund.** A mutual fund that purchases short-term debt instruments, such as Treasury Bills, commercial paper, and bankers' acceptances, and which strives to maintain a stable net asset value of \$1.00.

**Mutual Fund.** Investment companies that sell shares to investors, offering investors diversification and professional portfolio management. Prices generally fluctuate with the performance of the fund.

**Net Asset Value.** The ratio of the market value of the portfolio divided by the book value of the portfolio.

**Par.** The value of a security as expressed on its face (face value) without consideration of a discount or premium.

**Pledge.** The grant of a collateral interest in investment securities by the depository bank as assurance of the safety of Town deposits.

**Pooled Fund Group.** The combination of various accounts and funds of the Town in a single, internally-created investing entity.

**Portfolio.** The collection of securities held by an investor.

**Principal.** The capital sum of an investment, as distinguished from interest.

**Premium.** The difference between the cost price and the face value at maturity in cases where the cost price is higher than the face value.

**Rate-of-Return.** See **Yield.**

**Repurchase Agreement (REPO).** An investment arrangement in which the holder of a security sells that security to an investor (the Town) with an agreement to repurchase the security at a fixed price and on a fixed date.

**Reverse Repurchase Agreement.** An investment arrangement by which the Town sells a security to a third party, such as a bank or broker/dealer, in return for cash and agrees to repurchase the instrument from the third party at a fixed price and on a fixed date. The Town would then use the cash to purchase additional investments. This type of investment is prohibited in the Town's portfolio, except to the extent used by local government investment pools with which the Town invests.

**Safekeeping.** An arrangement whereby a bank holds securities and other valuables for protection in exchange for a fee.

**Safety.** The assurance of the undiminished return of the principal of the Town's investments and deposits.

**Secondary Market.** A market for the purchase and sales of outstanding securities following their initial distribution.

**SEC Rule 15C3-1 (Uniform Net Capital Rule).** Security and Exchange Commission requirement that member firms and nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1.

**Security.** A financial instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

**Security Risks.** The uncertainty of the value of a security dependent on its particular qualities.

**Time Deposits.** Deposits at the depository bank that are not due and payable until a specific date.

**United States Agency Securities.** Debt instruments issued by an executive department, an independent federal establishment, or a corporation or other entity established by Congress which is owned in whole or in part by the United States of America.

**United States Treasury Securities.** Debt instruments issued by the Treasury of the United States. **Treasury Bills** are issued for short-term borrowings (less than one year); **Treasury Notes** are issued for mid-term borrowings (Two - ten years); **Treasury Bonds** are issued for long-term borrowings (over ten years).

**Yield.** The rate of annual income return on an investment, expressed as a percentage.

**TEXAS PUBLIC FUNDS INVESTMENT ACT  
CERTIFICATION BY BUSINESS ORGANIZATION [SAMPLE]**

**TOWN OF COPPER CANYON, TEXAS**

This certification is executed on behalf of the Town of Copper Canyon, Texas (the "Town"), and \_\_\_\_\_ (the "Business Organization"), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the Town and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the Town; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Town that are not authorized by the Town's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: \_\_\_\_\_

\_\_\_\_\_  
Signature

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

