



## **CITY OF BEDFORD INVESTMENT POLICY**

**September 25, 2018**

It is the policy of the City of Bedford, Texas (the “City”), which includes the City of Bedford Street Improvement Economic Development Corporation (the “Corporation”), that after allowing for anticipated cash requirements and giving due consideration to safety, liquidity and yield, all available funds will be invested in conformance with the Investment Policy which has been developed to conform to the State of Texas Public Funds Investment Act as amended (the “PFIA” or the “Act”). Throughout this Investment Policy, the City and Corporation shall be referred to as “BEDFORD.”

In addition, applicable recommended practices published by the Government Finance Officers’ Association (GFOA) have been considered to ensure that BEDFORD’s investment activities are conducted within the framework of sound fiscal policy.

### **I. Scope**

This Policy applies to all financial assets of BEDFORD and serves to satisfy the statutory requirements of the PFIA to define and approve a formal investment policy. These funds are accounted for in BEDFORD’s Comprehensive Annual Financial Report and include:

- General Fund
- Enterprise Funds
- Special Revenue Funds
- Debt Service Funds - including Interest & Sinking Funds & Reserve Funds
- Capital Improvement Funds
- City of Bedford Street Improvement Economic Development Corporation Fund
- Other funds established from time to time

Except for cash in certain restricted and special funds, BEDFORD may consolidate cash and investment balances to ease cash management operations and maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### **II. General Objectives.**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

- 1. Safety.** Safety of principal is the foremost objective of the investment program.

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

**a. Credit Risk.** BEDFORD will minimize credit risk, the risk of loss due to the failure of the investment issuer or backer, by:

- 1) Limiting investments to the safest types.
- 2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with whom BEDFORD will do business.
- 3) Diversifying the investment portfolio so that potential losses on individual investments will be minimized.
- 4) Establishment of procedures to monitor rating changes of investments and the liquidation of such investments as required by the PFIA.

**b. Interest Rate Risk.** BEDFORD will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- 1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- 2) Investing operating funds primarily in shorter-term securities, financial institution deposits, money market mutual funds, or local government investment pools.

**2. Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of investments with active secondary or resale markets (dynamic liquidity). All or a portion of the portfolio also may be placed in financial institution deposits, money market mutual funds, or local government investment pools which offer same-day liquidity for short-term funds.

**3. Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity. Investments shall not be liquidated prior to maturity with the following exceptions:

- a. An investment with declining credit may be sold early to minimize loss of principal.
- b. An investment swap would improve the quality, yield, or target duration in the portfolio.

- c. Liquidity needs of the portfolio require that the investment be sold or redeemed.

### III. Standards of Care.

1. **Prudence.** The standard to be used by Investment Officers shall be the “prudent person” 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.” Investment Officers acting in accordance with written policies and procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.
2. **Ethics and Conflicts of Interest.** Investment Officers shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of BEDFORD.

An Investment Officer who has a personal business relationship with a depository bank or with any entity seeking to sell an investment to BEDFORD 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 BEDFORD shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

3. **Delegation of Authority.** Authority to manage and operate the investment program is granted to the Director of Finance. The Director of Finance shall establish written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include, but not be limited to: account management procedures, cash flow estimation procedures, investment transaction procedures, authorized broker/dealer selection process, and investment portfolio reporting requirements. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Authorized Investment Officers and subordinate officials.
4. **Authorized Investment Officers.**

City Manager

Assistant City Manager  
Director of Finance  
Accounting Manager

**5. Investment Committee.** There is hereby created an Investment Committee, consisting of the City Manager, Assistant City Manager, Director of Finance, City Secretary, Accounting Manager, and one City Council member to be appointed by a majority of the City Council.

The Investment Committee shall meet at least quarterly to review general strategies and to monitor portfolio performance. The Committee shall include in its deliberations such topics as:

- a. Economic outlook,
- b. Portfolio diversification,
- c. Maturity structure,
- d. Risk considerations,
- e. Authorized broker/dealers,
- f. Independent investment training sources, and
- g. Target rate of return on the portfolio.

The Investment Committee shall provide for minutes of its meetings.

Any two members of the Committee may request a special meeting, and three members shall constitute a quorum.

The Committee shall establish its rules of procedure.

**6. Investment Training.** In order to ensure the quality and capability of BEDFORD's investment personnel, BEDFORD shall provide periodic training in investments through courses and seminars offered by professional organizations and associations as required by the PFIA. The Investment Officers shall attend at least one training session accumulating at least ten (10) hours relating to the Officer's responsibility under the Act within twelve (12) months after assuming duties, and thereafter, attend investment training session(s) not less than once every two years (aligned with the City's fiscal year end), receiving an additional eight (8) hours of training. The training shall be conducted by independent training sources approved by the Investment Committee.

**7. Investment Policy Certification.** Local government investment pools and discretionary investment management firms shall provide certification of having read BEDFORD'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 City and the organization in accordance with the Act.

#### **IV. Broker/Dealers, Internal Controls and DVP.**

**1. Authorized Broker/Dealers.** A list will be maintained of "primary" dealers or regional

dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All investment providers, financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- a. Audited financial statements
- b. Proof of Financial Industry Regulatory Authority (FINRA) certification
- c. Proof of state registration
- d. Completed broker/dealer questionnaire

The Investment Committee shall review, revise, and adopt a list of authorized broker/dealers at least annually.

**2. Internal Controls.** The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of BEDFORD are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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 require estimates and judgments by management.

Accordingly, within the scope of the annual audit, the Director of Finance shall establish a process for an independent review by an external auditor to assure compliance with policies and procedures. The results of this compliance audit must be reported annually to the City Council. The internal controls shall address the following points:

- a. Control of collusion
- b. Separation of transaction authority from accounting and record keeping
- c. Custodial safekeeping
- d. Avoidance of physical delivery securities
- e. Clear delegation of authority to subordinate staff members
- f. Written confirmation of transactions for investments and wire transfers

**3. Delivery Versus Payment.** All trades, where applicable, will be executed by delivery versus payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party safekeeping agent as evidenced by safekeeping receipts.

## **V. Suitable and Authorized Investments**

**1. Investment Types.** The following investments will be permitted by this Policy as defined by state and local law where applicable. BEDFORD is not required to liquidate investments that were authorized at the time of purchase.

- a. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations (including obligations of the FDIC and the Federal Home Loan Banks), which have a liquid market with a readily determinable market value, and exclude those prohibited by the PFIA.

- b. Certificates of deposit and other evidences of deposit at a financial institution that, a) has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, b) is secured by obligations in a manner and amount provided by law for deposits of BEDFORD, or c) is placed in a manner that meets the requirements of the PFIA.
- c. Repurchase and reverse repurchase agreements whose underlying purchased securities consist of instruments as defined in a. above and placed in compliance with the PFIA.
- d. No load money market mutual funds regulated by the Securities and Exchange Commission that meet the requirements of the PFIA.
- e. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation authorized in compliance with the PFIA.

**2. Insurance, Pledged Collateral or Purchased Securities.** With the exception of deposits secured with irrevocable letters of credit at 100% of amount, all deposits of BEDFORD funds with financial institutions shall be secured by pledged collateral with a market value equal to or greater than 102% of the deposits, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the “purchased securities” in each agreement; such securities shall comply with the PFIA. Collateral pledged and purchased securities shall be reviewed at least monthly to assure the market value equals or exceeds the related BEDFORD investment.

BEDFORD shall accept only the following as pledged collateral:

- a. U. S. Treasury securities;
- b. Obligations of U. S. Government Agencies and Instrumentalities, including letters of credit, which have a liquid market with a readily determinable market value, and exclude those prohibited by the Public Funds Collateral Act (PFCA);
- c. Direct or unconditionally guaranteed obligations of the State of Texas;
- d. States, agencies, counties, cities, or political subdivisions naturally rated “A” or higher.

All collateral shall be subject to inspection and audit by BEDFORD or BEDFORD’s independent auditors.

Securities pledged as collateral shall be held by an independent third party with whom BEDFORD 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 agreement must clearly state that the custodian bank is instructed to release purchased and collateral securities to BEDFORD in the event BEDFORD has determined that the financial institution has failed to pay on any matured investments, or has determined that the funds of BEDFORD are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of the pledge and legal ownership must be supplied to BEDFORD and retained by BEDFORD.

**3. Repurchase Agreements.** Repurchase agreements shall be consistent with the PFIA and GFOA Recommended Practices on Repurchase Agreements.

## **VI. Investment Parameters**

**1. Diversification.** The investments shall be diversified by:

- a. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (where appropriate),
- b. Limiting investment in securities that have higher credit risks,
- c. Investing with varying maturities, and
- d. Continuously investing a portion of the portfolio in readily available funds such as financial institution deposits, local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

**2. Maximum Maturities.** To the extent possible, BEDFORD shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, BEDFORD will not directly invest in instruments maturing more than three (3) years from the date of purchase or in accordance with state and local statutes and ordinances. BEDFORD shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in instruments exceeding three (3) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in instruments maturing greater than three (3) years shall be disclosed in writing to the City Council.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as financial institution deposits, investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**3. Competitive Environment.** In order to create a competitive pricing environment for each investment transaction, including certificates of deposit, BEDFORD shall solicit quotations

from multiple providers.

## **VII. Reporting.**

**1. Methods.** The Director of Finance shall prepare an investment report, at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner, which will allow BEDFORD to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report shall be provided to the City Council. The report will comply with the requirements of the PFIA.

In conjunction with the annual audit, the quarterly reports shall be formally reviewed by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

**2. Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. “Weighted average yield to maturity” shall be the portfolio performance measurement standard.

**3. Market Valuation.** The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. The source of pricing used to calculate market value will be sources independent from the transaction.

**4. Credit Rating.** Not less than quarterly, the Investment Officers will monitor the credit rating for each held investment that has a PFIA required minimum rating. Any Authorized Investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

## **VIII. Policy Considerations**

**1. Exemption.** Any investment currently held that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

**2. Annual Review and Amendments.** The City Council shall annually review this Policy and shall adopt a written instrument stating its review and recording any changes. Any changes must be approved by the Investment Committee prior to consideration by the City Council.

## **IX. Selection of Depositories**

**1. Request for Application Process.** Primary Depositories shall be selected through BEDFORD’s banking services procurement process, which shall include a formal Request for

Application (RFA) issued in compliance with applicable State law (Chapter 105, State of Texas Local Government Code). This contract can be extended as per the RFA specifications. In selecting primary depositories, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective primary depositories' credit characteristics and financial history.

**2. Collateralized Deposits.** All depository deposits shall be insured or collateralized in compliance with applicable State law. BEDFORD reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as BEDFORD Depositories will be required to sign a depository agreement with BEDFORD. The collateralized deposit portion of the agreement shall define BEDFORD'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:

- a. The agreement must be in writing;
- b. The agreement has to be executed by the Depository and BEDFORD contemporaneously with the acquisition of the asset;
- c. The agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to BEDFORD; and
- d. The agreement must be part of the Depository's "official record" continuously since its execution.

## **X. Investment Strategies**

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. Investment guidelines by fund-type are as follows:

### **1. General, Enterprise, or Operating-type Funds**

**Suitability** - Any investment eligible in the Investment Policy is suitable for General, Enterprise, or Operating-type Funds.

**Safety of Principal** - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to the shorter of the anticipated cash flow requirement or three years will minimize the price volatility of the portfolio.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage

point will define an efficient secondary market.

**Liquidity** - General, Enterprise, or Operating-type Funds require the greatest short-term liquidity of any of the fund-types. Financial institution deposits, short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

**Diversification** - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of BEDFORD. Diversifying the appropriate maturity structure up to the three-year maximum will reduce interest rate risk.

**Yield** - Attaining a competitive market yield for comparable investment -types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

## 2. Special Revenue Funds

**Suitability** - Any investment eligible in the Investment Policy is suitable for Special Revenue Funds.

**Safety of Principal** – All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Special Revenue Funds to balance the short-term and long-term anticipated cash flow requirements of the specific revenue/expense plan, the market risk of the Fund’s portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated cash flow requirement or three years.

**Marketability** - Balancing short-term and long-term cash flow needs requires the short-term portion of the Funds portfolio to have securities with active and efficient secondary markets. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market. Securities with less active and efficient secondary markets are acceptable for the long-term portion of the portfolio.

**Liquidity** - A portion of the Special Revenue Funds are reasonably predictable. However, unanticipated needs or emergencies may arise. Selecting investment maturities that provide greater cash flow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures.

**Diversification** - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity and yield enhancement and stability. A “barbell” maturity ladder may be appropriate.

**Yield** - Attaining a competitive market yield for comparable investment -types and portfolio structures is the desired objective. The yield of an equally weighted, rolling six-

month Treasury Bill portfolio will be the minimum yield objective.

### **3. Capital Improvement Funds**

**Suitability** - Any investment eligible in the Investment Policy is suitable for Capital Improvement Funds.

**Safety of Principal** - All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Improvement Funds to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule or three years.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

**Liquidity** - Most capital improvements programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to one month’s anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

**Diversification** - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable cost of borrowing, BEDFORD is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then current market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

**Yield** - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy’s risk constraints. The yield of an equally weighted, rolling six-month Treasury Bill portfolio will be the minimum yield objective for non-borrowed funds.

### **4. Debt Service/Interest and Sinking Funds**

**Suitability** - Any investment eligible in the Investment Policy is suitable for Interest and Sinking Funds.

**Safety of Principal** - All investments shall be of high quality with no perceived default

risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.

**Marketability** - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

**Liquidity** - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Financial institution deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

**Diversification** - Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, BEDFORD is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

**Yield** - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

## **5. Debt Service Reserve Funds**

**Suitability** - Any investment eligible in the Investment Policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

**Safety of Principal** - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing will reduce the investment’s market risk if BEDFORD’s debt is redeemed and the Reserve Fund liquidated. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or three years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing’s documentation will influence the attractiveness of market risk and influence maturity extension.

**Marketability** - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

**Liquidity** – Debt Service Reserve Funds have no anticipated expenditures. The Funds are

deposited to provide annual debt service payment protection to BEDFORD's debt holders. The funds are "returned" to BEDFORD at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of investment diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, BEDFORD is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then current market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

**Diversification** - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

**Yield** - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall operate within the limits of the Investment Policy's risk constraints.