

**CITY OF GEORGETOWN, TEXAS
INVESTMENT POLICY
As amended December 14, 2021**

SECTION 1: SCOPE & OBJECTIVES

1.1 SCOPE

This Investment Policy applies to all financial assets of the City of Georgetown, Texas, which includes the City of Georgetown Economic Development Corporation and the Georgetown Transportation Enhancement Corporation, held in all funds.

1.2 STATEMENT OF CASH MANAGEMENT PHILOSOPHY

The City will maintain a comprehensive cash management program to include the effective collection of all accounts receivable, the prompt deposit of receipts to the City's bank accounts, the payment of obligations to comply with State law and in accord with vendor invoices, and the prudent investment of idle funds in accord with this Policy.

1.3 OBJECTIVES

The City's investment program will be conducted to comply with Texas Government Code Chapter 2256 (the Public Funds Investment Act or "PFIA") and accomplish the following objectives, listed in priority order:

1. *Safety.* The City will give priority to the preservation and safety of the principal invested. Investments will be made in a manner that will mitigate credit risk and interest rate risk.
2. *Liquidity.* The City will maintain the availability of sufficient cash to pay obligations of the City when they are due.
3. *Public Trust.* Investment Officers shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid transactions that might impair public confidence in the City's ability to govern effectively.
4. *Yield.* The City will invest idle cash in a manner that will maximize earnings to the greatest extent possible, consistent with State and local laws and the objectives of safety and liquidity listed above.

It is also the objective of the City to diversify its investments to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments, when appropriate. It is the intent of the City to hold investments to maturity.

SECTION 2: STANDARD OF CARE

2.1 PRUDENCE

Investments will be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. The City Council recognizes that in maintaining a diversified portfolio, occasional measured losses due to market volatility are inevitable and must be

considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- A. The investment of all funds, or funds under the City's control, over which the Officer had responsibility rather than a consideration as to the prudence of a single investment.
- B. Whether the investment decision was consistent with the written Investment Policy of the City.

The Investment Officers, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment's adverse credit risk or market price changes, provided that these deviations are reported immediately to the City Manager and/or the City Council and that appropriate action is taken to control adverse developments.

2.2 ETHICS & CONFLICT OF INTEREST

Investment Officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment Officers and employees will comply with all disclosure and reporting requirements of Section 2256.005 (i) of the Texas Government Code.

2.3 DELEGATION OF AUTHORITY

The Finance Director, both Assistant Finance Directors, and the Treasurer are the City's Investment Officers. The Finance Director is responsible for overall management of the City's investment program and may direct the other Investment Officers in his/her duties. Accordingly, the Investment Officers are responsible for day-to-day administration of the investment program and for the duties listed below:

1. Maintain current information as to available cash balances in City accounts, and as to the amount of idle cash available for investment;
2. Make investments and maintain written procedures for the operation and internal control of the investment program consistent with this Policy;
3. Ensure that all investments are adequately secured; and
4. Attend training relating to investment responsibilities under this Policy as required by Section 2256.008 of the Texas Government Code. Ten (10) hours of investment training must be completed within twelve (12) months of attaining the position of Investment Officer, and thereafter, eight (8) hours of training must be completed within a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date. To ensure quality and capability of investment management, all Investment Officers shall receive training from an independent source that addresses investment controls, security risks, strategy risks, market risks, diversification of investment portfolios, and compliance with the PFIA. The Training sponsored by any of the following organizations is approved:

Texas Municipal League

Government Finance Officers Association of Texas (GFOAT)
Government Finance Officers Association of the United States and Canada
Government Treasurers' Organization of Texas (GTOT)
University of North Texas
Texas Tech University Center for Professional Development

Unless authorized by law, no person may deposit, withdraw, transfer or manage in any other manner the funds of the City.

SECTION 3: INVESTMENT STRATEGIES

3.1 OPERATING FUNDS

Operating Funds are defined as cash and investments used for day-to-day operations that do not fall into one of the other categories. Operating Funds will be invested in a manner suitable to provide adequate liquidity for the anticipated operating needs of the City. Investments of Operating Funds shall be limited to a weighted average maturity no greater than one year and any one investment may not exceed 36 months without authorization by the City Manager. All investment instruments must meet credit and safety criteria as required by the PFIA and this Policy. All investments shall be of high quality with no perceived default risk. Operating Funds will remain sufficiently liquid to enable the City to meet operating requirements that may be reasonably anticipated. If utilized, securities with active and efficient secondary markets are necessary in the event of unanticipated cash requirements. Operating Funds' maturities will be staggered based on the City's anticipated operating needs, and the investments may include financial institution deposits, U.S. treasuries and agencies, state and municipal debt instruments, investment pools, and money market mutual funds. Investment of Operating Funds will be structured to attain the optimal yield given the liquidity and safety requirements.

3.2 CONTINGENCY RESERVES (or operating reserves)

Contingency Reserves are the minimum fund balance/working capital requirements as defined by City Council in the Annual Operating Plan. Contingency Reserves' balances may be used to cover any cash operating shortfalls due to the timing of bond issues, revenue receipts, etc. The funds will be invested in a manner suitable to cover operating shortfalls that may be reasonably anticipated. All investment instruments must meet credit and safety criteria as required by the PFIA and this Policy. All investments shall be of high quality with no perceived default risk. Investments of these funds may exceed 24 months with prior approval of the City Manager if short term cash flow needs are not evident. Any one investment may not exceed 36 months in maturity length. The weighted average maturity for these funds may not exceed 24 months. Contingency Reserves investments will remain sufficiently liquid to meet City needs in the event of an operating shortfall, and if utilized, securities with active and efficient secondary markets will provide marketability necessary should the need arise to liquidate the investment prior to maturity. Contingency Reserves' maturities will be diverse to cover possible operating shortfalls, and the investments may include financial institution deposits, U.S. treasuries and agencies, state and municipal debt instruments, investment pools, and money market mutual funds. Investment of Contingency Reserves will be structured to attain the optimal yield given the liquidity and safety requirements.

3.3 DEBT

3.3.1 Reserves. Debt Reserves are defined as bond reserve funds required to be set aside in accordance with bond covenants. The City's bond covenants do not require the City to maintain any reserve funds. Therefore, the City's investments are not adversely affected by any reserve requirement conditions.

3.3.2 Interest & Sinking (or debt service funds). Interest and Sinking funds are defined as those funds accumulated to meet periodic payments required by bond and note maturity schedules. The investment maturities are limited by pertinent debt service requirements and tax laws limiting accumulation and earnings for such funds, and investments should be made in a manner suitable to comply with applicable requirements and payment schedules. The investments must meet credit and safety criteria as required by the PFIA and this Policy. All investments shall be of high quality with no perceived default risk. The funds shall be invested to ensure adequate funding for each consecutive debt service payment but shall not exceed the debt service schedule. Involuntary liquidation of investments is highly unlikely due to the nature of these funds. Interest and Sinking fund maturities will be diversified by matching them to the debt service payments of the City, and the investments may include financial institution deposits, U.S. treasuries and agencies, state and municipal debt instruments, investment pools, and money market mutual funds. Investment of Interest and Sinking funds will be structured to attain the optimal yield given the liquidity and safety requirements.

3.4 BOND PROCEEDS (capital improvement funds)

Bond proceed funds are defined as those funds received from the sales of City bonds or notes and not otherwise set aside for debt service or reserve purposes. These funds typically include money to fund infrastructure, construction, or other large projects. The investment maturities are limited by pertinent project draw requirements, applicable bond covenants, and tax laws governing earnings for such funds, but may not have a single security greater than 36 months, unless a flexible repurchase agreement is used in accordance with Section 4.1.5 of this Policy. Investments must meet credit and safety criteria as required by the PFIA and this Policy and should be made in a manner suitable to meet project requirements. All investments shall be of high quality with no perceived default risk. The funds shall be invested to match projected cash flow requirements with sufficient liquidity to meet unanticipated project outlays, and maturities shall not exceed the expected project completion dates. Bond proceed maturities will be diverse to provide necessary liquidity based on project needs, and investments may include financial institution deposits, flexible repurchase agreements, U.S. treasuries and agencies, state and municipal debt instruments, investment pools, and money market mutual funds. Investment of Bond Proceeds will be structured to attain the optimal yield given the liquidity and safety requirements.

SECTION 4: AUTHORIZED INVESTMENTS

4.1 AUTHORIZED INVESTMENTS

City funds may be invested in the following authorized investments:

4.1.1 Financial Institution Deposits. 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 or in any other manner and amount provided by law for deposits of the City, or c) is executed through a depository institution or approved broker that has its main office or a branch office in Texas that meets the requirements of the PFIA. All financial institution deposits in excess of the FDIC insured amount must be collateralized as described by Section 5.5 COLLATERALIZATION.

4.1.2 U.S. Treasuries and Agencies. Obligations of the United States of America, its agencies and instrumentalities, including other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit

full faith and credit of the United States. Such obligations include letters of credit of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks.

4.1.3 Investment Pools. Investment pools that meet all requirements of the PFIA, including the following criteria:

- a. An investment pool must provide an offering circular or other similar disclosure instruments and provide monthly and transaction reporting as required by Section 2256.016 of the Texas Government Code.
- b. Investment in a new pool will require the approval of the City Council.
- c. A public funds investment pool created to function as a money market mutual fund must (1) mark its portfolio to market daily, (2) include in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share and (3) be continuously rated no lower than AAAm or at an equivalent rating by at least one nationally recognized rating service.

4.1.4. Money Market Mutual Funds. No-load government money market mutual funds if the fund:

- a. Is compliant with the PFIA;
- b. Is regulated by the Securities and Exchange Commission;
- c. Marks its portfolio to market daily;
- d. Includes in its investment objectives the maintenance of a stable net asset value of \$1.0000 for each share;
- d. Is continuously rated no lower than AAA or at an equivalent rating by at least one nationally recognized rating service.

4.1.5. Repurchase Agreements. Fully collateralized repurchase agreements that:

- a. Have a defined termination date;
- b. Are secured by cash or obligations as allowed by the PFIA and this Policy;
- c. Require independent third-party safekeeping of all securities prior to the release of any funds;
- d. Are placed through a primary dealer or financial institution doing business in Texas; and
- e. Do not create a reverse repurchase agreement by the City.

Construction, capital improvement and bond proceed funds may utilize a flexible repurchase agreement, or similar agreement, that allows expenditure-related withdrawal of funds, without penalty, with an average life and termination date limitation based on the anticipated draw schedule. Any repurchase agreement shall require the execution of a mutually acceptable Repurchase Agreement.

4.1.6. Municipal Issuers. Obligations of:

- a. The State of Texas or its agencies and instrumentalities; and
- b. Counties, cities, and other political subdivisions of the State of Texas rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

Investments purchased prior to this Policy's revision, that do not meet the revised requirements of this Policy, are not required to be liquidated. The City shall monitor each investment's status to determine whether it is in the best interest of the City to hold or liquidate the investment.

Prohibited Investments

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

- a) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- b) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- c) Collateralized mortgage obligations (CMO) that have a stated final maturity date of greater than 10 years; and
- d) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

4.2 CREDIT RATING REVIEW AND EFFECT OF LOSS OF REQUIRED RATING

Not less than quarterly, the Investment Officers will obtain from a reliable source the current credit rating for each held investment that has a PFIA-required minimum rating. Any Authorized Investment that requires a minimum rating and does not qualify at any time during the period, is considered to not have the minimum rating. The City shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

4.3 COMPLIANCE WITH STATE LAW

All authorized investments outlined above must meet the requirements of the PFIA. No investment may be made in any instrument except as provided above.

4.4 CASH ON HAND

Cash resources required for the immediate needs of the City, and not otherwise available for longer term investment, will be placed in account(s) at the City's Depository/Depositories, in local government investment pools and/or money market mutual funds. Such account(s) will earn interest at the highest rate(s) provided in the respective depository contract(s).

SECTION 5: SAFEKEEPING AND CUSTODY

5.1 AUTHORIZED BROKER/DEALERS and INVESTMENT POLICY CERTIFICATION

Authorized investment securities may be purchased only through brokers/dealers who are licensed and in good standing with the Texas State Securities Board, the Securities Exchange Commission, the Financial Industry Regulatory Authority, or other applicable self-regulatory organization. The City Council will, at least annually, review, revise, and adopt a list of broker/dealers who are authorized to engage in investment transactions with the City. The list is approved and included in Attachment "A" of this Policy.

Before engaging in investment transactions with an Investment Pool or discretionary investment management firm, the Investment Officers will have received from said pool/firm a signed

Certification Form. This form will attest that the individual responsible for the City's account with that pool/firm has received and reviewed the City's Investment Policy and that the pool/firm has implemented reasonable procedures and controls to preclude transactions conducted between the City and the pool/firm that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the City that are not made through accounts or other contractual arrangements over which the pool/firm has accepted discretionary investment authority. The letter must be signed by a Qualified Representative as defined by the PFIA.

"Qualified Representative" means a person who holds a position with a business organization who is authorized to act on behalf of the business organization and who is one of the following:

(1) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool, or

(2) for a discretionary investment management firm registered under the Investment Advisers Act of 1940 or, if not subject of registration under the Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

5.2 AUTHORIZED FINANCIAL INSTITUTIONS

Financial institution deposits and other evidences of deposit may be purchased at qualified City Depositories and other financial institutions. Qualifications will be determined by the Investment Officers. The City must have a written agreement with the Depository and other financial institutions, and that depository and other financial institutions must meet all State Laws for deposit of public funds. The City's main operating Depository/Depositories will be selected as provided by law and the City's purchasing procedure.

5.3 INTERNAL CONTROLS

The Finance Director will establish and maintain procedures for the execution of the investment program and these procedures will address internal controls to mitigate risks of intentional or inadvertent mismanagement or misappropriation of funds.

All investment transactions will be documented by the Investment Officers. The Investment Officers, or through the City's Investment Advisor, may make investments orally, but will follow promptly with a written confirmation to the financial institution or broker/ dealer, with a copy of such confirmation retained in the City's files.

All trades, purchases, and sales, excluding cash equivalent transactions, will be completed through a competitive process. Where appropriate, at least three (3) quotations will be solicited for each such investment made.

Market value of the portfolio and each investment will be monitored at least quarterly through industry standard publications/sources for market data such as, but not limited to, The Wall Street Journal or Bloomberg.

5.4 SAFEKEEPING

All securities purchased by the City under this Policy must be designated as assets of the City, must be settled on a delivery-versus-payment (DVP) basis, and must be protected through the use of a third-party custody/safekeeping agent. The City will enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the City.

5.5 COLLATERALIZATION

To the extent not insured by federal agencies that secure deposits, City funds (including financial institution deposits and CDs) must be collateralized in compliance with the Texas Public Funds Collateral Act and pertinent federal banking regulations. With the exception of deposits secured with irrevocable letters of credit at 100% of deposit plus accrued interest, the aggregate market value of pledged securities shall be equal to at least one hundred two percent (102%) of the deposit plus accrued interest less an amount insured by the Federal Deposit Insurance Corporation. Should the depository fail to adequately maintain the required collateral level, the City may increase the minimum to 110%. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateral pledged towards its deposits. Institutions serving as a depository will be required to sign a Depository/Collateral Agreement with the City. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing;
- The agreement must be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- 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 the City; and
- The agreement must be part of the Depository's "official record" continuously since its execution.

Securities pledged as collateral must be retained by an independent, third-party custodian and marked as pledged to the City. The City will be provided the original safekeeping receipt from the custodian on each pledged security. With the exception of the Federal Reserve Bank, the City, financial institution, and the custodian will operate in accordance with an acceptable custodial agreement. The City's Investment Officers must approve in writing the release of collateral prior to its removal from the safekeeping account in accordance with the terms of the depository and/or custodial agreement.

The financial institution(s) with which the City invests and/or maintains deposits will require the custodian to provide monthly a listing of the collateral pledged to the City marked to current market prices. The listing will include total pledged securities itemized by name, CUSIP, type and description of the security; safekeeping receipt number; par value; current market value; maturity date; and Moody's or Standard & Poor's rating, if available.

SECTION 6: REPORTING

6.1 QUARTERLY REPORTING

The Investment Officers shall prepare, sign and submit to the City Council a quarterly report on investment transactions for all funds covered by this Policy. The report will be prepared in compliance with the PFIA. The report will cover the investment position of the City at the end of each fiscal quarter. The contents will include at a minimum:

1. Beginning and ending market value and accrued interest of the portfolio;
2. Beginning and ending market value and book value, maturity date, type of funds, interest coupon, and yield for each separate security; and
3. A statement as to the compliance with this Policy and State law.

6.2 ANNUAL REPORTING

Within 90 days following the end of the fiscal year, the Investment Officers will present to the City Council or the General Government and Finance Advisory Board a comprehensive annual report on the investment program and investment activity. In addition to the information required for quarterly reporting, the annual report will include a review of the activities and return for the twelve

months, suggest Policy revisions and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year. The annual report may be a component of the quarterly report.

6.3 PERFORMANCE STANDARDS

To evaluate portfolio performance of funds subject to this Policy, the City establishes “weighted average yield to maturity” as the standard portfolio performance measurement. The portfolio’s performance will be compared against appropriately competitive and reasonable benchmarks, including money market mutual funds or investment pools of similar make-up and maturities.

6.4 COMPLIANCE

The quarterly reports shall be formally reviewed and a compliance audit of management controls and adherence to this Policy as it relates to the City’s investments and investing activity will be performed on an annual basis in conjunction with the City’s annual financial audit. The results shall be reported to the City Council.

SECTION 7: POLICY REVIEW AND AMENDMENTS

This Investment Policy will be reviewed by the City Council on at least an annual basis as required by the PFIA. The City Council shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and the written instrument so adopted shall record any changes made to either the investment policy or investment strategy.

**CITY OF GEORGETOWN INVESTMENT POLICY
Attachment "A"**

Approved Broker/Dealer List

FHN Financial
Duncan Williams
Hilltop Securities
Multi-Bank Securities
SAMCO Capital
Rice Financial
Wells Fargo Securities

These broker/dealers meet the City's Investment Policy requirements.