



INVESTMENT POLICY AND STRATEGY

Effective July 1, 2025

INTRODUCTION

The City of Mineral Wells, Texas (“City”) is a Home-Rule Municipality, operating pursuant to Article II, Section 5 of the Texas Constitution and State law. It is the policy of the City that the administration of its funds and the investment of those funds shall be handled in a manner which promotes the highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City. This Investment Policy is to define the parameters within which funds are to be managed and implemented within reasonable standards for its cash management and investment operations.

The purpose of this Policy is to set specific investment policy and strategy guidelines. This Policy formalizes the framework for the City’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of its funds. The guidelines are intended to be broad enough to allow the Investment Officers to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

MISSION, VISION AND GOALS

Mission:

To ensure responsible, transparent, and strategic financial investments which promote economic stability, sustainable growth, and long-term prosperity for the community while safeguarding the principle of public funds.

Vision:

A financially resilient and thriving local economy where strategic investments foster innovation, infrastructure development, and equitable opportunities for all residents.

Goals:

1. Fiscal Responsibility: Maintain prudent investment strategies that optimizes returns while minimizing risk and ensuring compliance with state and federal regulations.
2. Transparency and Accountability: Ensure all investment decisions are made with full transparency, stakeholder engagement, and alignment with public interests.
3. Long-term Stability: Prioritize investments that secure financial resilience, ensuring stability for future generations.

I. INVESTMENT AUTHORITY

All investment and cash management activities shall be conducted in full compliance with applicable City ordinances as well as state and federal regulations. Specific statutory regulations for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). All investments will be made in accordance with this statute. Collateral requirements are established in Texas by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, for all public Texas funds deposits.

II. SCOPE

Except as otherwise noted below, this Policy applies to all financial assets of the City. These funds are reported in the City’s annual audit / Annual Comprehensive Financial Report (ACFR) and include:

- General Fund;
- Special Revenue Funds;
- Capital Project Funds;
- Enterprise Funds;
- Mineral Wells Economic Development Corporation;
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately;
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately;
- Any new fund created by the City unless specifically exempted from this Policy by the City or the law.

Funds held by trustees or external entities, such as retirement funds are excluded from these rules; however, all funds are subject to regulations established by the State of Texas.

III. OBJECTIVES

The City shall manage and invest its assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield. Safety of the principal is the primary objective. All investments shall be managed in a manner responsive to the public trust.

The primary objectives, in priority order, of investment activities shall be:

Safety

Safety of principal is the foremost objective of the investment program. All aspects of cash management operations shall be designed to ensure the safety and integrity of the City's financial assets. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, mitigating credit and interest rate risk. Each investment transaction shall be conducted in a manner to minimize capital losses.

Liquidity

The investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining an additional liquidity buffer for unexpected liabilities.

Diversification

The portfolio shall be diversified by market sector and maturity in order to manage market risk.

Yield

The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout economic cycles, taking into account the City's investment risk constraints of safety and liquidity needs.

IV. STRATEGY

The City maintains portfolio is designed to address the unique characteristics of the fund groups represented in the portfolios. The investment strategies for each portfolio adhere to the following investment objectives prioritized in order of importance:

1. Suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the portfolio; and
6. Yield.

A. Investment strategies for general and operating funds and commingled pools containing those funds have as their primary objectives to protect principal and to ensure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by utilizing high quality, short- to medium-term investments which will complement each other in a laddered or barbell maturity structure. The dollar-weighted average maturity will be calculated using the stated final maturity date of each investment.

B. Investment strategies for debt service funds shall have as the primary objectives to protect principal and the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Investments shall not have a stated final maturity date which exceeds the next unfunded debt service payment date.

C. Investment strategies for debt service reserve funds shall have as the primary objectives to protect principal and to generate a dependable revenue stream to the appropriate debt service fund from investments with a low degree of volatility. Investments should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short- to intermediate-term maturities.

D. Investment strategies for capital project and special purpose fund portfolios will have as their primary objectives to protect principal and to ensure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in cash equivalent investments to allow for flexibility and unanticipated project outlays. The stated final maturity dates of investments held shall not exceed the lesser of the anticipated cash flows, or the estimated project completion date.

At all times the City shall maintain a cash buffer to meet daily anticipated liquidity requirements. The maximum final stated maturity of any investment shall not exceed three years.

V. STANDARD OF CARE

The standard of care to be used for all City investments shall be the "prudent person" standard as established by the Act and shall be applied in the context of managing the overall portfolio. The "prudent person" standard states that:

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of their capital and the probable income to be derived.

Investment Officers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be responsible for any individual security's credit risk or market price changes but shall not be personally liable for deviations from expectations so long as deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

City Council

By law, the City Council retains ultimate fiduciary responsibility for the portfolio. The Council is required to receive quarterly reports and annually review and adopt the Investment Policy and Strategy. The Council is responsible for reviewing and approving authorized broker/dealers and investment training sources. The Council is also responsible for providing for the required Investment Officer(s) training.

Investment Officer(s)

The City Manager and Director of Finance/Assistant City Manager are hereby appointed as Investment Officers. Investment Officers are responsible for investment decisions and activities. The City may further contract with a registered Investment Advisor to advise in the management of the portfolio. The Investment Officers shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and procedures adopted in accordance with the Policy.

The Investment Officers are responsible for creating and maintaining the portfolio in accordance with this Policy, providing timely quarterly reporting to the City Council, and establishing procedures and controls for the processes with financial counterparties (brokers, banks, pools). The Investment Officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

Training

In accordance with the Act and in order to ensure quality and capability of investment management, all Investment Officers shall attend at least one training session within twelve (12) months after assuming investment duties and shall attend eight hours of training every two years thereafter, with the first such two-year period beginning on the first day of the City fiscal year after the year in which the Investment Officer takes the initial training. Training shall be provided by professional organizations authorized in accordance with state law.

Ethics Disclosure

Investment Officers involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions.

The Act requires all Investment Officers to file a disclosure statement with the Texas Ethics Commission and the City Council if:

1. the officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City (as defined in 2256.005 (i)(1-3)); or
2. the officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity.

Employees and Officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment Advisor

The City may engage the services of a SEC-registered Investment Advisor (registered under the Investment Advisors Act of 1940) to assist in the management of the investment portfolio in a manner consistent with the City's objectives and policies. The Investment Advisor will be a non-discretionary service provider.

The City will establish strict guidelines regarding the Investment Advisor to ensure that all support activities are consistent with the City's established policies, rules and regulations.

VII. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORYES, AND BROKER/DEALERS

Primary Depository

Chapter 105 of the Texas Local Government Code requires that a primary Depository shall be selected through the City's banking services procurement process, which shall include a formal request for application (RFA) every five (5) years. The selection of a primary depository will be determined by evaluation of the best value criteria during the RFA process, and may include the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law;
- The ability to provide requested information or financial statements for the period specified;
- The ability to meet the minimum required items in the banking RFA;
- Complete response to all required items on the RFA form; and
- Competitive net banking service cost, consistent with the ability to provide an appropriate level of service.

Certification

Section 2256.005(k) of the Act requires that any business organization (including a discretionary investment advisor or local government investment pools) offering to engage in an investment transaction with the City must be provided with a copy of this Investment Policy and must provide the City with a written instrument (in a form acceptable to both parties) executed by a representative of the person or entity that substantially acknowledges that the person or entity has:

- Received and reviewed the City's Investment Policy and strategy; and
- Implemented reasonable procedures and controls in an effort to preclude investment transactions with the City that are not authorized by the City's Investment Policy.

Authorized Broker/Dealers

The City Council will annually review and adopt a list of broker/dealers who will be authorized to engage in investment transactions with the City.

Authorized broker/dealers may include "primary" or regional dealers as well as brokers who qualify under the Securities and Exchange Commission Rule 15C3-1 and who meet other financial credit standards in the industry, and qualified depositories. The firms may be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience, and reputation.

The Investment Officers shall review the performance, financial condition and registration of all qualified financial institutions and broker/dealers, as needed.

VIII. AUTHORIZED INVESTMENTS

The Act outlines all possible authorized investments available to public entities. The City shall invest only in those investments authorized below. If changes are made to the Act allowing for additional authorized investments, such investments will not be authorized by the City until this Policy is modified and adopted by the City Council. If an authorized investment in the City's portfolio later becomes an unauthorized investment due to changes in this Investment Policy or Act, the City is not required to liquidate.

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or its instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States.
4. Financial institution deposits that are issued by a state or national bank or credit union that (a) has its main office or a branch office in Texas and is guaranteed or insured by the FDIC or National Credit Union Share Insurance Fund (NCUSIF) or their successors, (b) is secured and/or collateralized in a manner and amount provided by the Public Funds Collateral Act and this Investment Policy for deposits of the City, or (c) is placed in a manner that meets the requirements of the Act.
5. AAA or equivalent rated, constant dollar, Texas local government investment pools as defined by the Act that are authorized by resolution or ordinance of the City Council.
6. AAA-rated, SEC-registered no-load money market mutual funds that maintain a net asset value of \$1.0000 per share.
7. Obligations of states, agencies, counties, cities, and other political subdivisions of any US state, rated at least A or its equivalent by a nationally recognized investment rating firm.
8. Fully collateralized, direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's account, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. Repurchase agreements must be executed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A repurchase agreement must be signed by the counter-party prior to investment in a repurchase agreement. All repurchase agreement transactions must have a market value of purchased securities greater than or equal to 103 percent of the total balance of the agreement.

IX. COLLATERALIZATION

Collateral Policy

The City has established a collateral policy in compliance with Government Code Chapter 2257, Public Funds Collateral Act. Deposits secured with irrevocable letters of credit shall be equal to or greater than 100% of principal plus anticipated interest of the deposit, less any amount insured by FDIC or NCUSIF. Deposits secured with pledged marketable securities shall have a market value equal to or greater than 103% of the principal plus accrued interest of the deposit, less any amount insured by the FDIC or NCUSIF. All collateral shall be subject to inspection and audit by the City or its auditors.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository, approved by the Investment Officers, in accordance with a third-party agreement executed under the terms of the Financial Institutions Resource and Recovery Enforcement Act (FIRREA).

Financial institutions serving as City Depositories will be required to sign a depository 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 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.

Authorized Collateral

Acceptable forms of collateral are limited to those authorized by the Public Funds Collateral Act. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards financial institution deposits.

X. DIVERSIFICATION

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector, when appropriate;
- Limiting investment in higher credit risk issuers;
- Investing in investments with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as financial institution deposits, local government investment pools, money market funds, or other overnight investments to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

XI. INTERNAL CONTROLS

The Investment Officers have the responsibility of establishing and maintaining an internal control structure designed to reasonably ensure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Avoidance of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Written documentation on all transactions, and
- Review, maintenance and monitoring of security procedures.

The Act requires that in conjunction with the annual audit and the preparation of City's Annual Comprehensive Financial Report, an internal compliance of investment procedures will be performed to ensure compliance with the Policy and the Act.

The Investment Officers will develop and maintain internal procedures, describing use of bank balances, calculation of the City's liquidity needs, daily investment procedures, investment transaction documentation, and distribution of reports, at a minimum.

Competitive Environment

The City requires a competitive environment for all individual security purchases and sales, financial institution time deposit and transaction accounts, and money market mutual fund and local government investment pool selections. The Director of Finance shall develop and maintain procedures for ensuring a competitive environment in the investment of the City's funds.

Delivery vs. Payment

The Act requires that investments in marketable securities shall be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of City funds.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officers will utilize a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

Monitoring Credit Ratings

The Investment Officers shall monitor, at least quarterly, the credit rating on all authorized investments having a PFIA-required minimum rating based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating, the City shall take all prudent measures that are consistent with this Policy to liquidate that investment.

External Audits

In conjunction with the annual financial audit, an annual review of the quarterly investment reports will be made by the City's external auditors and reported to City Council. Such audit will include tests deemed appropriate by the auditor.

XII. SAFEKEEPING AND CUSTODIAL AGREEMENTS

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio, or held as collateral to secure financial institution deposits. Securities owned by the City will be held in the City's account as evidenced by safekeeping receipts or reports of the institution holding the securities. The City shall approve all third-party custodians for the holding of securities pledged to the City as collateral to secure financial institution deposits.

XIII. REPORTING

In accordance with the Act, no less than quarterly the Investment Officers will prepare and submit a quarterly report to the City Council. The report will comply with the Act and will contain, at a minimum:

- a. detailed description of each investment position as of the date of the report including book and market values and purchase yield;
- b. summary statements for the total portfolio including:
 - (1) beginning and ending book value for the reporting period,
 - (2) beginning and ending market value for the reporting period,
 - (3) additions and changes in market value (volatility measure) for the reporting period,
 - (4) total accrued earnings for the reporting period,
 - (5) weighted average maturity (WAM) at the end of the period, and
 - (6) portfolio yield and benchmark yield for the reporting period.

The quarterly report shall include a statement of compliance for the portfolio as it relates to State law and the City's Investment Policy and incorporated strategy and be signed by each Investment Officer.

Weighted average yield to maturity shall be the portfolio's performance measurement standard. Prices used for calculation of market values will be obtained from an independent source.

XIV. INDEPENDENT TRAINING SOURCES

The approved independent training sources for educational requirements under the Act are as follows: Government Finance Officers Association; Government Finance Officers Association of Texas; Government Treasurers' Organization of Texas; International City/County Management Association; Texas Municipal League; North Texas Council of Governments; University of North Texas Center for Public Management; American Institute of Certified Public Accountants; and the Association of Governmental Accountants.

XV. INVESTMENT POLICY ADOPTION

The Investment Policy shall be reviewed and adopted by the City Council at least annually. The adopting rule, order, ordinance, or resolution shall include any changes made to the Policy. It is the City's intent to comply with State laws and regulations. The City's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and the needs of the City.