



City of Corpus Christi

Investment Policy and Investment Strategies

Adopted
~~December~~
9 August 18,
20265

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CITY OF CORPUS CHRISTI
INVESTMENT POLICY AND INVESTMENT STRATEGIES

Adopted ~~December 9~~ August 18, 20265

This Investment Policy ("Policy") sets forth the specific policies and guidelines and general strategy for the investment of funds of the City of Corpus Christi ("City") in order to achieve the City's goals of safety, liquidity, diversification, and yield and to preserve the public trust. This Policy satisfies the statutory requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256 ("Act") to define and adopt a formal investment policy and strategy and assures compliance with the Act.

I. POLICY STATEMENT

It is the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide maximum security of principal invested through risk management and diversification strategies while meeting the cash flow needs of the City and conforming to all federal, State and local laws, rules and regulations governing the investment of public funds.

The receipt of a reasonable yield is secondary to the requirements for safety and liquidity. Earnings from investment will be used in a manner that best serves the interests of the City.

II. SCOPE

This Policy governs the investment of all funds of the City as reported in the Annual Comprehensive Financial Report, except for the following:

- A. Employee's Retirement Fund, and
- B. Fireman's Retirement System.

With respect to the funds of non-profit corporations that are established by City Council resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt and reserve funds) of the City or of a non-profit corporation established by the City and acting on behalf of the City in accordance with State law shall be governed and controlled by their creating ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended, including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

All funds in the investment portfolio ("Portfolio") of the City are managed as a pooled fund group, referenced in this Policy as the City's Pooled Fund, except the following, which are managed as separately invested assets:

- A. Escrow and Public Improvement District (PID) Accounts;
- B. Airport Passenger Facility Charges (PFC); and
- C. Law Enforcement Seized Assets.

III. PRUDENCE

The standard of care established by law to be used in the investment process shall be the "prudent person standard" and shall be applied in the context of managing the overall Portfolio, rather than a consideration as to the prudence of a single investment. The 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 capital and the probable income to be derived.

IV. OBJECTIVES

All funds shall be managed and invested with four primary objectives, in order of their priority:

A. Safety

The preservation and safety of principal is the City's foremost objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Authorized investments are chosen for their high credit quality and stability.

B. Liquidity

The Portfolio shall remain sufficiently liquid, and retain a liquidity buffer, to assure that the City meets all reasonably anticipated expenditures. Investment decisions will be based on anticipated cash flows and only high-credit quality securities will be used for their marketability.

C. Diversification

The City will diversify its investments by maturity and market sector in an effort to avoid incurring unreasonable and avoidable market risks.

D. Yield

The Portfolio shall be designed with the objective of attaining a reasonable market yield taking into account the investment risk constraints and liquidity needs of the City.

V. LEGAL LIMITATIONS AND AUTHORITIES

Specific investment parameters for the investment of public funds in Texas are found in the Act. All investments will be made in accordance with the Act, this Policy, and any applicable financial indentures or trust requirements.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

All participants in the investment process shall seek to act responsibly as custodians of the public trust.

A. City Council

The City Council has ultimate fiduciary responsibility for all funds. The City Council is responsible for reviewing and adopting the Policy on no less than an annual basis. The City Council shall receive and review quarterly investment reports, approved by the Investment Committee, from the Investment Officers. In addition, the Council is responsible for designating one or more individuals to serve as Investment Officer(s). In accordance with the Act, the Council may retain responsibility for reviewing and approving authorized broker/dealers or designate that responsibility to the Investment Committee.

B. Investment Committee

An Investment Committee shall meet at least quarterly to review and determine operational strategies and to monitor investment results. The Investment Committee shall consist of the City Manager, Deputy City Manager or Assistant City Manager over Finance, Director of Finance & Procurement, Director of Management & Budget and two Council Members appointed by the Mayor (one of which may be the Mayor) and confirmed by City Council for a term concurrent with the member's elected term. The Investment Committee shall include in its deliberation such topics as: economic outlook, diversification, maturity structure, risk, and performance of the portfolio. At least annually, the Investment Committee shall review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City. The Investment Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the Policy to the City Council. The Investment Committee will review quarterly investment reports before submission to the City Council.

C. Investment Officers

Investment Officers are designated by City Council resolution until such designation is rescinded. The authority to invest City funds and the execution of any documentation necessary is granted to the Investment Officers consisting of the Assistant Director of Finance, Controller, City Treasurer and Investment Analyst. The Investment Officers are responsible for the daily operation of the investment program; shall comply with this Policy, the Act, and all applicable federal, State, and City laws, rules, and regulations; and will provide complete reports to the Investment Committee on a quarterly basis. The Investment Officers will retain all documentation on investment transactions.

Each Investment Officer shall attend at least 10 hours of training within 12 months after taking office or designation as an Investment Officer and eight hours of investment training in each succeeding two-year fiscal period. Training must be received from an independent source approved by the City's Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio and compliance with the Act.

The Investment Officers will avoid any transaction that might impair public confidence in the City. The Investment Officers may not engage in an investment transaction except as provided under the terms of this Policy. In order to ensure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the experience and judgment necessary to carry out the responsibilities outlined in this Policy.

D. Investment Advisor

The City Council may contract with an investment management firm registered under the Investment Advisers 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 City Council by ordinance or resolution.

E. Ethics and Conflicts of Interest

Investment Officers shall comply with the City's Code of Ethics which requires disclosure of financial interests each year. Investment Officers shall refrain from personal business activities that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions. Investment Officers shall disclose to the City Council any material investment decisions and financial interests in institutions that conduct investment or banking transactions with the City.

Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:

1. The Investment 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 Investment 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 City.

VII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

All investment transactions shall be made through the financial institutions or broker/dealers approved by the Investment Committee. No investment transactions may be entered into with

a brokerage subsidiary of the City's safekeeping bank in order to perfect delivery versus payment (DVP) requirements for trade independence.

The Investment Officers will provide each authorized financial institution and broker/dealer a copy of this Policy to ensure that they are familiar with the goals and objectives of the City as required by the Act.

Investments shall only be made with local government investment pools which have provided the City with a written certification executed by a qualified representative of the pool acknowledging that the pool has:

- A. Received, and thoroughly reviewed the Policy; and
- B. Implemented reasonable controls and procedures in an effort to preclude investment transactions not authorized by the Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's Portfolio or requires an interpretation of subjective investment standards.

The Investment Officers will request the Investment Committee authorize the deletion of financial institutions or broker/dealers for:

- A. Slow response time;
- B. Inability to compete with other authorized firms;
- C. Insufficient market information on technical or fundamental expectations based on economic indicators;
- D. Failed transactions or continuing operations difficulties; or
- E. Unwillingness to abide by this Policy.

VIII. AUTHORIZED INVESTMENTS

A. Investments

Authorized investments under this Policy shall be limited to the instruments listed below as further described by the Act. If additional types of securities are approved for investment of public funds by State statute, they will not be eligible for investment by the City until this Policy has been amended and the amended version adopted by the City Council. The City is not required to liquidate investments that were authorized investments at the time of purchase (2256.017).

1. Obligations of the U.S. Government, its agencies and instrumentalities, excluding mortgage backed securities, with a maximum stated maturity of three years [2256.009(a)(1)].
2. Fully Federal Deposit Insurance Corporation (FDIC) insured or collateralized depository certificates of deposit of a depository institution that has its main office or a branch office in Texas with a maximum maturity of two years (2256.010).
3. Fully collateralized direct repurchase agreements with a defined termination date secured in accordance with this Policy and placed through a primary government

securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State. All repurchase agreement transactions shall be governed in accordance with the Act. The maximum stated maturity shall be one year with the exception of flex repurchase agreements used for bond proceeds capital projects. The flex repurchase agreement transaction shall be matched to the expenditure plan of the bonds (2256.011).

4. AAA, or equivalent, rated local government investment pools defined by the Act and striving to maintain a \$1 net asset value and specifically approved for participation by a resolution of the City Council (2256.016).
5. AAA-rated, SEC registered no-load money market mutual funds which strive to maintain a \$1 net asset value [2256.014(a)].
6. Fully FDIC insured or collateralized interest-bearing depository accounts of banks in Texas [2256.009(a)(7)].
7. General debt obligations of any U.S. states, agencies, counties, cities, and other political subdivisions of any state rated no less than A by a nationally recognized rating agency and with a maximum stated maturity of three years [2256.009(a)(5)].
8. FDIC insured brokered certificate of deposit securities from a bank in any U.S. state, DVP to the City's safekeeping agent, not to exceed two years to maturity. Before purchase, the Investment Officers must verify the FDIC status of the bank on www.fdic.gov to assure the bank is FDIC insured [2256.010(b)].
9. A1/P1, or equivalent, rated commercial paper with a maximum maturity of 270 days subject to meeting one of the two stated conditions in Sec. 2256.013. (2256.013).
10. Guaranteed investment contracts with a maximum maturity of two years and executed in accordance with the Act (2256.015).
11. Securities lending transactions with primary dealers or banks doing business in Texas in accordance with the Act (2256.0115).

B. Competitive Bidding Requirement

It is the policy of the City to require competitive bidding for all security purchases and sales, except for:

1. Transactions with money market mutual funds and local government investment pools;
2. Treasury and agency securities purchased at issue;
3. Automatic overnight "sweep" transactions with the city depository; and
4. Repurchase agreements.

Two or more bids or offers must be solicited for all other transactions involving individual securities with the exception of guaranteed investment contracts, which require at least three bids or offers. In situations where the exact security is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Certificates of deposit may be solicited in any manner permitted by the Act.

C. DVP Requirement

All transactions, excluding local government investment pool and mutual fund transactions, shall be conducted on a DVP basis.

IX. COLLATERALIZATION

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of the Depository Services Agreement, this Policy, the Public Funds Collateral Act (Texas Government Code, Chapter 2257), and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

A. Time and Demand Deposit Pledged Collateral

Consistent with State law, the City requires all bank time and demand deposits to be federally insured and collateralized above federal insurance coverage with eligible securities. Depository collateral is pledged to and not owned by the City.

All collateral shall be held by independent third-party custodian(s) approved by the City under an executed collateral agreement with the pledging bank. The custodian(s) shall provide a monthly report of the collateral. The value of pledged securities must be at least 102% of deposits including accrued interest.

Eligible collateral securities shall only include:

1. Obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities and collateralized mortgage obligations passing the Federal Reserve *bank test*,
2. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than A by a nationally recognized rating agency, or
3. Irrevocable letters of credit issued to the City by a federal home loan bank.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

Collateralization often requires substitution. The substituted collateral's market value will be calculated and, if its market value is equal to or greater than the required collateral value, the substitution is allowed. Substitutions should be limited to minimize the City's transactional recording requirements.

Should the collateral's market value exceed the required amount, the pledging Institution may request approval from an Investment Officer to reduce collateral. Collateral reductions may be permitted only if the City's records indicate that the total collateral market value exceeds the required amount.

B. Repurchase Agreements Owned Collateral

Collateral under a repurchase agreement is owned by the City (2256.011). It will be held by an independent third-party safekeeping institution approved by the City under an executed

Bond Market Master Repurchase Agreement. Securities (collateral) with a market value totaling 102% of the principal and accrued interest of the repurchase agreement is required, and the third-party is responsible for the monitoring and maintaining of collateral and margins daily.

Authorized collateral for repurchase agreements will include only:

1. Cash;
2. Obligations of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities and CMO which pass the *bank test*; or
3. Debt obligations of any U.S. state or U.S. state sub-division rated A or better by at least one nationally recognized rating agency.

X. SAFEKEEPING

The City shall maintain safekeeping with its banking institution or other banks for the safekeeping of City-owned securities (including those owned under a repurchase agreement or guaranteed investment contract). All collateral must be held in the City's name and must be so reflected on the safekeeping receipts. All security transactions shall be settled on a DVP basis by the safekeeping institution (2256.005).

Securities shall not be held in any brokerage account. Securities shall not be bought from the City's depository bank in order to provide perfected DVP.

The safekeeping institution shall be required to issue safekeeping receipts listing each specific security, rate, description, maturity, Committee on Uniform Security Identification Procedures (CUSIP) number, and other pertinent information which will be maintained by the Investment Officers.

XI. INTERNAL CONTROLS

The Investment Officers will maintain controls to regulate the activities of the investment program in accordance with this Policy. The controls shall be designed to prevent loss of funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions. Internal controls deemed most important would include: competitive bidding, control of collusion, separation of duties, safekeeping, delegation of authority, and documentation. In conjunction with the annual financial audit, a compliance audit of management controls on investments and adherence to this Policy shall be performed.

A. Cash Flow Forecasting

Cash flow analysis and forecasting is designed to protect and sustain cash flow requirements of the City. Executive management of the City will inform the Investment Officers of anticipated cash flows which will be used for cash flow and investment purposes.

B. Loss of Rating

The Investment Officers shall monitor the credit rating on all authorized investments in the portfolio which require ratings by policy or law. Ratings will be based upon independent information from a nationally recognized rating agency. An investment that requires a minimum rating under the Act does not qualify as an authorized investment during the period the investment does 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. If any security falls below the minimum rating required by Policy or law, the Investment Officers shall notify the Committee of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within one week after the loss of the required rating (2256.021).

C. Monitoring FDIC Coverage

The Investment Officers shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered certificates of deposit owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered certificates of deposit are owned by the City, the Investment Officers shall immediately liquidate any brokered certificate of deposit which places the City above the FDIC insurance level.

XII. REPORTING

In accordance with the Act (2256.023), not less than quarterly, the Investment Officers shall prepare and submit to the Investment Committee and City Council a written report of investment transactions for all funds covered by the Act and this Policy for the preceding reporting period within a reasonable time after the end of the period. The report must:

- A. Describe in detail the investment position of the portfolio on the date of the report;
- B. Be prepared jointly by all Investment Officers of the City;
- C. Be signed by each Investment Officer of the City;
- D. Contain a summary statement of each pooled fund group that states the:
 - 1. Beginning market value for the reporting period;
 - 2. Ending market value for the period; and
 - 3. Fully accrued interest for the reporting period;
- E. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
- F. State the maturity date of each separately invested asset that has a maturity date;
- G. State the account or fund or pooled group fund in City for which each individual investment was acquired; and
- H. State the compliance of the investment portfolio of the City as it relates to:
 - 1. The investment strategy expressed in this Policy; and
 - 2. Relevant provisions of Section 2256.023 of the Act.

The quarterly reports prepared by the Investment Officers shall be formally reviewed at least

annually by an independent auditor, and the result of the review shall be reported to City Council by that auditor.

In addition to quarterly reports, the Investment Officers will submit to the Director of Finance the following reports on a monthly basis:

- A. Cash position by bank account;
- B. Collateral position; and
- C. Investment transaction.

Market prices for market value calculations shall be obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services.

XIII. DEPOSITORIES

The City designates one banking institution for banking services through a competitive process at least every five years. Written depository agreements shall be executed before funds are transferred.

XIV. AUDITS AND COMPLIANCE WITH LAWS

Each banking institution agrees to comply with all federal, State, and local laws, rules, and regulations. The personnel or officers of such institution shall be fully qualified and authorized under federal, State, and local law to perform the services set out under this Policy. Each institution shall permit the Investment Officers to audit, examine, and make excerpts or transcripts from such records of all contracts, invoices, materials, and other data relating to applicable investments.

XV. INVESTMENT POLICY ADOPTION

The City Council shall review and adopt by resolution its Investment Policy and Investment Strategies not less than annually, and the approving resolution shall designate any changes made to the Policy and Strategies.

XVI. INVESTMENT STRATEGIES

The City's Investment Portfolio ("Portfolio") will be designed and managed based on projected cash flows to provide for all anticipated and projected cash needs for each fund. The Portfolio is to be managed pro-actively considering ongoing market changes but is essentially a buy-and-hold portfolio. Information on expected expenditures from the executive management of the City will be incorporated into investment decisions. The overall investment program shall be designed and managed with a degree of professionalism worthy of public trust. The investment strategy for funds established after the annual Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until a specific strategy is reviewed and adopted.

A. Pooled Fund Strategy

The City's Pooled Fund is an aggregation of City funds which include tax receipts, enterprise revenue, fine and fee revenues, as well as, bond proceeds, grants, gifts, and endowments. The City's Pooled Fund may include funds from various Corporations associated with the City which receive income distributions from their pro-rata share of the full fund group. The City's Pooled Fund is maintained to meet anticipated daily cash needs for City operations, capital projects, and debt service payments. The objectives of this fund are to:

1. Ensure safety of principal by investing only in high-credit quality investments for which a strong secondary market exists which are designed to assure on-going suitability and marketability of such investments;
2. Ensure that anticipated cash flows are matched with adequate investment liquidity;
3. Limit market and credit risk through diversification; and
4. Attain a market yield commensurate with the objectives and restrictions set forth in this Policy.

The City's Pooled Fund shall have a maximum dollar-weighted average maturity (WAM) of two years (730 days) designed to meet anticipated cash flow needs. The fund shall be laddered based on cash flow analysis to provide ongoing liquidity for anticipated needs and provide for reasonable extension.

A minimum of 15% of the City's Pooled Fund shall be held in cash or cash equivalents for liquidity and no more than 40% may be invested longer than one year. Changes in City cash flows may change percentage representations over time. Unless approved by the Investment Committee, the target percentages specified shall not be exceeded for a temporary period greater than thirty (30) days without the Investment Officers taking corrective action.

The risks in the City's Pooled Fund shall be measured quarterly against a risk benchmark designed to mirror the authorized market investments and the City's cash flow requirements. Because this fund is dictated by cash flow needs, the benchmark becomes a measure of risk which reflects the primary market rates matched to the WAM. With a maximum WAM of two years, the risk benchmark is established as the two-year Treasury Note for the comparable period. The fund should track the risk benchmark but will

naturally lag as market interest rates, which adjust daily, move.

B. Escrow and Public Improvement District (PID) Fund Strategy

These escrow and PID accounts were established pursuant to specific agreements. These accounts are restricted to investments authorized by the Act and this Policy. The objectives of this fund are to:

1. Ensure safety of principal by investing only in high credit quality investments for which a strong secondary market exists;
2. Ensure that anticipated cash flows are matched with adequate investment liquidity;
3. Manage market and credit risk through diversification of investments and the requirement of AAA ratings; and
4. Attain a market yield commensurate with the objectives and restrictions set forth in this Policy and the agreements.

C. Airport Passenger Facility Charges (PFC) Fund Strategy

The Airport PFC Fund is revenue comprised of fees imposed as authorized by the Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title IX, Subtitle B, Sec. 9110). The revenue is segregated as required by the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration. The objectives of this fund are to:

1. Ensure safety of principal by investing only in high credit quality investments for which a strong secondary market exists;
2. Ensure that anticipated cash flows are matched with adequate investment liquidity;
3. Manage market and credit risk through diversification of investments and the requirement of AAA ratings; and
4. Attain a market yield commensurate with the objectives and restrictions set forth in this Policy.

D. Law Enforcement Seized Assets Fund Strategy

The Law Enforcement Seized Assets Fund is comprised of seized contraband money that, per the Code of Criminal Procedure, Chapter 59, Article 8, may be deposited in an interest-bearing bank account in the jurisdiction of the attorney representing the State until final judgment is rendered concerning the contraband. The objective of this fund is to ensure safety of principal by investing only in a fully FDIC-insured or collateralized interest-bearing depository account of banks in Texas. Since the revenue will only be deposited into this type of investment, there is no liquidity risk, market risk, diversification risk, nor credit risk.