

**Resolution approving amendments to the City Investment Policy to amend term for Certificate of Deposit from one to two years and include brokered certificates of deposit as an authorized investment; and approving the Investment Policy as amended.**

**WHEREAS**, the City of Corpus Christi Investment Policy was adopted in Resolution No. 022390 on October 24, 1995; and was last approved in Resolution 029320 on December 13, 2011; and

**WHEREAS**, the Investment Policy provides for annual review by City Council; and

**WHEREAS**, the Public Funds Investment Act requires annual review by the governing body of its Investment Policy, and adoption of a written instrument stating that it has reviewed the investment policy and investment strategies;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CORPUS CHRISTI, TEXAS:**

**SECTION 1.** That the Corpus Christi City Council has reviewed amendments to the City Investment Policy to increase term for Certificates of Deposit from one to two years and include brokered certificates of deposit as an authorized investment. The City Council approves the Investment Policy as amended. A copy of the Investment Policy without appendices as amended is attached.

**ATTEST:**

**THE CITY OF CORPUS CHRISTI**

\_\_\_\_\_  
Armando Chapa  
City Secretary

\_\_\_\_\_  
Nelda Martinez  
Mayor

Corpus Christi, Texas

\_\_\_\_\_ of \_\_\_\_\_, 2012

The above resolution was passed by the following vote:

Nelda Martinez \_\_\_\_\_

Kelley Allen \_\_\_\_\_

Rudy Garza \_\_\_\_\_

Priscilla Leal \_\_\_\_\_

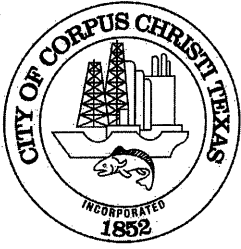
David Loeb \_\_\_\_\_

Chad Magill \_\_\_\_\_

Colleen McIntyre \_\_\_\_\_

Lillian Riojas \_\_\_\_\_

Mark Scott \_\_\_\_\_



**CITY OF CORPUS CHRISTI, TEXAS  
FINANCIAL SERVICES**

**INVESTMENT POLICY**

~~December 13, 2011~~  
December 11, 2012

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# CITY OF CORPUS CHRISTI

## INVESTMENT POLICY

### I. INTRODUCTION

The City of Corpus Christi shall invest all available monies in compliance with this Investment Policy as adopted by the City Council and authorized by the Public Funds Investment Act.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management program will be pursued to maximize interest earnings as a viable and material revenue source. The City's portfolio shall be designated and managed in a manner responsive to the public trust and consistent with local, state and federal law.

Investments shall be made with the primary objective of:

- Preservation of capital and protection of principal;
- Maintenance of sufficient liquidity to meet operating needs;
- Security of city funds and investments;
- Diversification of investments to minimize risk while maximizing interest earnings; and
- Maximization of return on the portfolio.

Earnings from investments will be used in a manner that will best serve the interests of the City of Corpus Christi.

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 that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

### II. PURPOSE

#### A. Authorization

This Investment Policy is authorized by the City Council in accordance with Chapter 2256, Subchapter A of the Texas Government Code - The Public Funds Investment Act (the "Act" attached and incorporated as Appendix A).

#### B. Scope

This Investment Policy applies to all funds of the City, excluding pension funds, with regard to investing the financial assets of Funds, including, but not limited to:

General Fund  
Special Revenue Funds  
Enterprise Funds

Internal Service Funds  
Special Purpose Funds (within the control of Investment Officers)  
Capital Improvement Funds (including Bond Proceeds, Bond Reserves, Debt Service, Commercial Paper and any other debt instrument)

In addition to this Policy, the investment of Bond Funds, Debt Service, and Reserve Funds shall be managed (including the yield calculation thereon) by their governing ordinances and Federal Law, including the Tax Reform Act of 1986 and subsequent legislation.

### C. Review and Amendment

This Policy shall be reviewed and adopted no less than annually by the City Council on or before December 31 of each calendar year. Amendments must be adopted by the City Council. The City Council shall adopt a written instrument by ordinance or resolution stating that it has reviewed the Investment Policy. This ordinance or resolution shall record any changes made to the Investment Policy.

## III. DEFINITIONS

**Authorized Broker/Dealer** - Primary dealer and regional firms that have been selected by the federal underwriters to distribute their securities. Each authorized firm in a Broker/Dealer will offer the issue at the price authorized by the governmental agency on the initial market issuance.

**Authorized City Representatives** – Investment Officers and City officers authorized to execute transactions are designated in the attached and incorporated Appendix A on behalf of the City. (Specific positions so authorized are the City Treasurer, Investment Analyst, Controller, Chief Accountant, Deputy Director of Financial Services and Director of Financial Services).

**Authorized Investment** – Authorized investments defined by this Policy with a maximum maturity are approved by the Investment Committee and City Council. All Policy authorized securities are listed in Section V.

**Collateral** - Securities pledged by a banking institution or sold under a repurchase agreement, to guarantee City assets. All collateral must be AAA rated. The City requires U.S. Treasuries, U.S. Agency Securities or municipal obligations as collateral so that the market values can be readily determined at any point in time. Collateral requirements are defined in Section XI.

**Cusip Number** - A cusip is a 9-character alphanumeric code which identifies a financial security for purposes of facilitating clearing and settlement of trades.

**Custodian** – An approved independent custodian charged with the safekeeping of securities owned by or pledged to the City. An independent custodian is one not affiliated with any pledging institution or counter-party.

**Director of Financial Services** - The Director of Financial Services is the Municipal Finance Officer responsible for City investments, but not designated as an Investment

Officer. The Director of Financial Services may designate the Deputy Director of Financial Services, Controller or Chief Accountant to assist in this process.

**Excess Cash Balances** - Collected bank balances not needed to pay estimated check clearings.

**Failed Transaction** – A transaction in which an investment is not delivered to an institution for operational or availability reasons. The security would fail to be delivered to the Custodian.

**Institution** - Any firm, bank, bank holding company, broker/dealer or Public Funds Investment Pool that offers to sell/buy a financial transaction/security to the City. All such firms must complete a Policy certification as stated by this Policy.

**Investment Advisor** – SEC registered investment advisor contracted by the City to assist in the portfolio management process, reporting and treasury operations/controls.

**Investment Officers** – Individuals designated by the City Council to execute investment transactions. Positions include only the City Treasurer and Investment Analyst.

**Investment Portfolio** - All City monies and securities invested under authority of the Investment Officers.

**Qualified Representative** – As defined by the Act, 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:

- (A) For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- (B) For a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
- (C) For an investment public funds investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment public funds investment pool to sign the written instrument on behalf of the investment public funds investment pool; or
- (D) For an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**Reserve Funds** - Funds designated by the City Council for specific purposes, which have not been appropriated for spending.

**Securities** - Approved Investments designated by the Investment Committee, as defined by Section VII, to be held in the Investment Portfolio or acceptable to be pledged as Collateral to secure the monies of the City.

**Special Purpose Funds** - Monies of non-profit corporations that Investment Officers are permitted to invest; includes such entities as the Coastal Bend Health Facilities Development Corporation, Corpus Christi Housing Finance Corporation, Corpus Christi Community Improvement Corporation, HOME Project, First Time Home Buyer, Corpus Christi Industrial Development Corporation, Corpus Christi Business and Job Development Corporation, North Padre Island Development Corporation, Corpus Christi Crime Control and Prevention District, and Corpus Christi Digital Community Development Corporation.

**Third Party Safekeeping Institution** - Any Institution not affiliated with an Institution delivering the Authorized Investment.

#### **IV. INVESTMENT OBJECTIVES**

The following states the investment objectives of the City in order of priority:

##### **A. Preservation and Safety of Principal**

Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall Investment Portfolio.

##### **B. Liquidity**

The City's Investment Portfolio must be structured in a manner which maintains the liquidity necessary to pay obligations as they become due. Sufficient cash flows must be maintained through cash flow analysis and by rapidly depositing monies and timing disbursements. Generally, Investments are matched to specific cash flow requirements such as payrolls, construction drawdown schedules, debt service payments, and other payables. Liquidity is also achieved by investing in Authorized Investments with active secondary markets or in Public Funds Investment Pools with stable net asset values.

##### **C. Investment Yield**

The City's Investment Portfolio shall be designed with the objective of regularly exceeding the average yield of the following benchmarks in a manner consistent with the principles of this Policy described in Section IV. A and B and reflecting the cash flow expectations and portfolio strategy of the City:

Six-month average of Texpool, Lone Star, Texstar and Texas Daily.

However, it must be recognized that differing interest rate environments will result in fluctuations. During a declining market, satisfying this objective may not be practical until Authorized Investments mature and can be re-invested, especially since preservation of capital is the first priority in the investment of monies pursuant to this Policy.

For bond issues to which arbitrage restrictions apply, the primary objectives shall be to avoid negative arbitrage and to obtain market yields minimizing the costs associated with investing such monies.



#### **D. Diversification**

Diversification is required because of differing liquidity needs of the City and to control risk. Diversification minimizes the risk to the overall Investment Portfolio by spreading market and credit risk as well as potential losses on individual securities or market sector thereby enhancing safety of the Investment Portfolio.

Through the solicitation of competitive proposals, the City shall allocate and diversify its Investments through various Institutions. The following types of Investments will be solicited from approved Institutions:

1. Obligations of the United States; 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.
2. Repurchase Agreements - through a Third Party Safekeeping Institution Agreement, which includes an approved primary dealer doing business in Texas as required by the PFIA;
3. Public Funds Investment Pools - through participation agreements;
4. Certificates of Deposit - through approved local banks or a broker that has a main office or a branch office in this state and is selected from a list adopted by the investing entity.
5. Money Market Mutual Funds;
6. Guaranteed Investment Contracts (for Bond Proceeds only);
7. Texas Term Investment Pool; and
8. Securities Lending Program.

The City recognizes that investment risks can result from default risk, credit volatility risk, and market price risks due to various technical and fundamental economic factors, and other complications, leading to temporary illiquidity.

To control market price risks, volatile Investments shall be avoided. To control default risk, the only acceptable method of payment will be on a delivery versus payment-basis for all transactions, except Public Funds Investment Pools and repurchase agreements.

Delivery versus Payment provides for payment to Institutions at the time the Investments are recorded in book entry form at the City's Third Party Safekeeping Institution, currently maintained at the Federal Reserve. For certificates of deposit, sufficient Collateral at 102% of current market values must be pledged to protect all City monies or monies under its control that exceed Federal Deposit Insurance Corporation (FDIC) coverage; the Collateral must be safe kept at a Third Party Safekeeping Institution not affiliated with the bank or bank holding company providing the certificate of deposit.

#### **V. AUTHORIZED INVESTMENTS AND MAXIMUM MATURITY**

The City of Corpus Christi is authorized to invest only in the following investments. City monies, governed by this Policy, may not be invested in other investments permitted by law unless this Policy is amended and adopted to permit such investment.

**A. Authorized Investments**

**1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage backed securities, which currently include the following stated final maturities:**

- | <b>a. Short-term U.S. Treasuries:</b>    | <b>Maximum Maturity</b> |
|--|-------------------------|
| 1.) U.S. Treasury Bills .....            | up to 365 days*         |
| 2.) U.S. Treasury Coupon Notes .....     | up to 3 years*          |
| 3.) U.S. Treasury Notes and Strips ..... | up to 3 years*          |

- | <b>b. U.S. Agencies:</b>                            | <b>Maximum Maturity</b> |
|---|-------------------------|
| 1.) Federal Home Loan Bank .....                    | up to 2 years*          |
| 2.) Federal National Mortgage Association. ....     | up to 2 years*          |
| 3.) Federal Farm Credit .....                       | up to 2 years*          |
| 4.) Federal Home Loan Mortgage Corporation.....     | up to 2 years*          |
| 5.) Federal Agricultural Mortgage Corporation ..... | up to 2 years*          |

\*Reserve Funds invested in Treasury and Agency obligations may have a stated final maturity up to five years.

**2. Repurchase Agreements ..... up to 365 days**

Repurchase agreements must be fully collateralized at 102% with a defined maturity date, is secured by a combination of cash and obligations, 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 placed with a primary government dealer with collateral, and safekept at a City approved Custodian, as provided under the provisions of the SIFMA (Securities Industry and Financial Markets Association) Master Repurchase Agreement. An executed agreement between the City, primary government dealer and Custodian will be on file before the City will enter into a tri-party repurchase agreement.

Weekly monitoring by the City's Investment Officers or Advisor of all Collateral underlying repurchase agreements is required. More frequent monitoring may be necessary during periods of market volatility.

**3. Public Funds Investment Pool ..... up to 1 day**

A Public Funds Investment Pool duly created and managed in accordance with the Act to function as a money market mutual fund that marks its portfolio to market daily and, to the extent reasonably possible, which stabilizes its portfolio to market daily at \$1 net asset value. If the ratio of the market value of the Public funds investment pool's portfolio divided by the book value of the portfolio is less than 99.50% or greater than 100.50%, the Public-funds investment pool's portfolio holdings shall be sold as necessary to maintain the ratio between 99.50% and 100.50%.

The maximum amount that may be invested in any one public funds investment pool is five (5) percent of the total current invested balance of the Public Funds Investment Pool. The maximum total amount that may be invested in any one overnight Public Funds Investment Pool is thirty (30) percent of the Investment Portfolio.

The Public Funds Investment Pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. Public Funds Investment Pools may contain investment securities that are not directly authorized by this Policy, so long as (i) the AAA rating is standard herein above stated is satisfied, and (ii) the investment is permitted by Subchapter A of the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with the investment policies and objectives adopted by the investment pool. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market fund shall report yield to its investors in accordance with regulations of the Securities and Exchange Commission applicable to reporting by money market funds. If the investment pool operates as an internet website, the information in a disclosure instrument or report must be posted on the website.

**4. Collateralized and Brokered Certificates of Deposit ..... up to 4 2 years**  
Certificates of deposit or other instruments issued by state and national banks domiciled in Texas that are:

- a. •** Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor; or
- b. •** Secured at 102% by obligations defined by Section XI of this Policy.

**a. Collateralized Certificates of Deposit –**

Certificates of deposit must be fully collateralized at 102% of their market value. The City requires the bank to pledge U.S. Treasuries or U.S. Agencies as collateral as described in section V, Subdivision A.1. The Investment Officers will monitor adequacy of collateralization on a weekly basis.

**b. Brokered Certificates of Deposit –**

The Investment Officer shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the City of Corpus Christi based upon information from the FDIC. Brokered CDs will be required to have a cusip number and be held in safekeeping at a third-party institution. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer shall immediately liquidate any brokered CD which is above the FDIC insurance level.

**5. Money Market Mutual Fund ..... up to 1 year**

A AAA-rated no-load money market mutual fund (no service charge) is an authorized investment if:

- a. the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
- b. the money market mutual fund provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- c. the money market mutual fund includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share;
- d. the assets of the money market mutual fund are invested in those investments authorized under this Investment Policy; and
- e. the money market mutual fund has a dollar weighted average stated maturity of 90 days or fewer.

**6. Guaranteed Investment Contracts ..... up to 3 years**

Guaranteed investment contracts offer to pay a specific interest rate over a period of time, and can be structured to reflect an anticipated draw down schedule for capital improvements funded with bond proceeds. The collateral and monitoring requirements applicable to repurchase agreements shall apply to guaranteed investment contracts. A guaranteed investment contract may be utilized only in connection with the investment of bond proceeds. The maximum term of a guaranteed investment contract shall not exceed the anticipated construction period for the capital improvement, the construction of which is to be funded with Bond Proceeds.

**7. Texas Term Investment Pool..... up to 1 year**

The Texas Term Investment Pool for fixed term investments was created as an investment pool and is a hybrid, mutual fund structure. The pool offers a fixed rate, fixed term portfolio option and is rated AAAs by Standard and Poor's Ratings Services. Participants may lock in a fixed rate for a term of 60 to 365 days.

**8. Securities Lending Program ..... up to 1 year**

Securities lending program as defined by the Act qualifies as an authorized investment if the value of the securities loaned under the program is not less than 100%. However, the City requires 102% collateral. A loan made under the program must allow for termination at any time. Collateral is required and pledged to the City, held in the City's name and deposited with a custodian approved by the City. A loan made

under the program must be secured by pledged securities described by Section 2256.009(a), pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent or cash invested in accordance with Section 2256.009, 2256.013, 2256.014 or 2256.016. The terms of a loan made under the program must require that the securities being held as collateral be pledged to the investing entity, held in the investing entity's name and deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity. A loan made under the program must be placed through a primary government securities dealer or a financial institution doing business in Texas. An agreement to lend securities must have a term of one year or less.

## **B. Weighted Average Maturity**

In order to assure adequate liquidity and to minimize risk of loss to the Investment Portfolio due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the Funds. Maturity guidelines by Fund are as follows:

The weighted average maturity (WAM) of the overall portfolio shall be no more than 365 days.

### **1. Operating Funds**

The maximum weighted average maturity of Operating Funds shall be 365 days. The Investment Officers will monitor the maturity level and adjust as appropriate throughout the fiscal year.

### **2. Capital Improvement Funds**

The maximum weighted average maturity of Capital Improvement Funds shall be 365 days. The Authorized Investment maturity of that portion of the City Portfolio that represents Capital Improvement Funds (bond proceeds, reserve funds, debt service and Commercial Paper) shall be determined considering:

- a. The anticipated cash flow requirements of the Capital Improvement Funds; and
- b. The "temporary period" as defined by Federal income tax law during which time bond proceeds may be invested at an unrestricted yield. Bond proceeds subject to yield restriction shall be invested considering that yield restriction to avoid a challenge to the City's related indebtedness qualification as an obligation, the interest in which is not subject to federal taxation under section 103 of the Internal Revenue Code of 1986 as amended (the "IRC"). Bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the Capital Improvement Funds.

For all bond proceeds controlled by the tax-exempt bond provisions of the IRC a complete yield analysis shall be performed to assure compliance with the IRC. An annual rebate calculation shall be performed to assure compliance with IRC. An annual rebate calculation shall be performed to determine the City's rebate liability at the end of each respective bond issue's five-year term.

On the third anniversary of the respective issue date for each bond issue, bond proceeds from such issue will be yield restricted as required by the IRC.

- 3. Reserve Funds: Established by Operative Bond Funds or by the City Council.

The following Reserve Funds may be invested up to five years in U.S. Treasuries or Agencies:

	Maximum
Choke Canyon Fund 4050.....	\$10,000,000

City monies governed by this Policy may not be invested in other investments permitted by law unless (i) such investments are specifically authorized for the investment of these monies by an ordinance adopted by the City Council issuing bonds or other debt obligations or (ii) this Policy is amended to permit such investment.

**C. Methods to Monitor Investment Market Price**

The City monitors the market price of investments obtained from Texpool's securities pricing service or the Bloomberg system which is made available through the City's authorized institutional brokers. The City may also obtain market price information from other nationally recognized sources of financial information such as the *Wall Street Journal*.

**VI. INVESTMENT STRATEGIES**

**A. Investment Maturity Diversification**

A minimum of 15% of the total investment portfolio shall be held in Authorized Investments with maturity dates of 90 days or less for liquidity. U.S. Treasuries/Agencies may be purchased for longer-term maturities (greater than one year) but shall not exceed 40% of the total investment portfolio to preserve liquidity.

The weighted average maturity limitation of the overall Investment Portfolio takes these requirements into account to protect liquidity and allow flexibility for market environments. Daily Authorized Investment reports shall monitor and address whether these diversification requirements are being met. Unless approved by the Investment Committee, the target percentages specified shall not be exceeded for temporary periods greater than thirty (30) days without the Investment Officers taking corrective action.

## **B. Strategies**

### **1. Operating and CIP Funds**

Investment strategies for operating funds and capital improvement funds have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create an Investment Portfolio structure, which will experience minimal volatility during economic cycles. To accomplish this strategy, the City will purchase high credit quality, short-to-intermediate term investments primarily in a ladder structure.

To pay for anticipated disbursements, Authorized Investments will be ladder to correspond with the projected cash flow needs of the City. Investments maturing that are acquired on the short end of the yield curve 90 days or less will meet immediate cash needs. A few Authorized Investments are purchased on the intermediate part of the yield curve (1-3 year maturity) to lock in higher interest rates when rates are projected to decline due to the economic cycle of the economy. The dollar weighted average investment maturity of 365 days or less will be calculated using the stated final maturity dates of each investment.

### **2. Debt Service Funds**

Investment strategies for debt service funds shall have as the primary objective the assurance that debt service payment obligations are timely met.

### **3. Debt Service Reserve Funds**

Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream with a low degree of volatility. In accordance with the specific bond authorization document, investments should be of high credit quality, with short-to-intermediate-term maturities and a maximum weighted average maturity of one year.

### **4. Special Purpose Funds**

Investment strategies for Special Purpose Funds will have as their primary objective the assurance that anticipated cash flows are matched with adequate Authorized Investment liquidity. The stated final maturity dates and weighted average maturity shall be structured on the project completion date.

These investment portfolios shall include highly liquid investments to allow for flexibility and unanticipated project outlays.

## **C. Achieving Investment Yield Objectives**

The City will utilize a conservative buy and hold strategy for the majority of the Investment Portfolio with investment selection based on legality, appropriateness, liquidity, and risk/return considerations. This strategy recognizes the unique needs of individual funds and provides for their recognized cash flow needs. The remaining portion of the Investment Portfolio may be invested actively and the reasons for doing so are:

**1. Passive investment provides for:**

- a. Investments targeted to pay upcoming anticipated disbursements.
- b. Liquidity to provide for a measure of anticipated disbursements and
- c. Laddering and diversification to manage market and credit risk.

**2. Active investment provides for:**

- a. The ability to improve yields in the Investment Portfolio by riding the yield curve during business cycle recovery and expansion periods. Interest rates on longer maturities typically exceed those on shorter maturities. Therefore, longer maturities (that can be held to maturity, if necessary) are purchased in anticipation of selling later at the same or lower interest rate, improving the total return during the holding period.
- b. The ability to improve market sector diversification by swapping out of one investment into another for a better total return, to realign for disbursement projections, or to extend or shorten maturity depending on economic forecasts. The City Manager, or his designee, is required to approve any investment that must be sold at a loss. All gains and losses will be reported to the City Council and Investment Committee no less frequently than on a quarterly basis.

**VII. DESIGNATION OF RESPONSIBILITY**

**A. Investment Committee**

An Investment Committee, consisting of City Manager, Assistant City Managers, Director of Financial Services (or if vacant, Deputy Director of Financial Services), City Attorney, Assistant Director of Financial Services/Management and Budget shall meet at least quarterly to determine operational strategies and to monitor investment results. The Investment Committee will be responsible for monitoring, reviewing and making recommendations regarding the City's Investment Portfolio to the City Council.

The Investment Committee will review quarterly investment reports before submission to the City Council and will, on no less than an annual basis, review and adopt a list of authorized broker/dealers prepared by the City. The Investment Committee shall include in its deliberation such topics as: economic



outlook, Investment Portfolio diversification, maturity structure, risk and performance of the portfolio(s).

**B. Investment Officers**

The authority to invest City funds and the execution of any documentation necessary to evidence the investment of City funds is granted to the Investment Officers. The City Treasurer and the Investment Analyst are the designated Investment Officers responsible for the daily operation of the investment program. Investment Officers will prepare monthly and quarterly reports, maintain information on counter-parties, monitor collateral, and attend training as required by the Act.

As required by the Act, each Investment Officer shall attend ten hours of training in accordance with the Act within 12 months of assuming responsibilities and attend 10 hours of training that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. Training should include topics such as investment controls, security risk, market risks, diversification of the investment portfolio and compliance with Texas laws.

The Investment Committee approves investment – training seminars presented by the following organizations:

Government Finance Officers Association  
Government Finance Officers Association of Texas  
Government Treasurers Organization of Texas  
Association of Public Treasurer's of the US & Canada  
Texas Municipal League  
University of North Texas Center for Public Management

If the Investment Officer desires to attend an investment-training seminar presented by another organization for training credit, such seminar must be approved by the Director of Financial Services.

**C. 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.) to provide for the investment and management of City funds. The initial 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.

**VIII. INTERNAL CONTROLS**

The City Treasurer will establish a system of internal controls over the investment activities of the City and document such controls in the Investment Procedures Manual. These internal controls shall be approved by the Director of Financial Services.

**A. Standard of Care**

Investments shall be made with the same 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. Prudent investment is to be judged by the Investment Portfolio as a whole, not on individual Investments.

In the case of a loss required rating, if liquidation is necessary due to a public funds investment pool losing its AAA rating or for other reasons, liquidation will be done in a prudent manner consistent with the investment objectives of this Policy and as provided in 2256.021 of the Government Code the Act. The Investment Officer shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer shall notify the City Manager, Director of Finance and City Council of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

Investment Officers and the Investment Advisor shall perform their duties strictly in accordance with the adopted Investment Policy. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability if exceptions are reported on a timely basis and prudent actions are taken to reduce potential loss. The Investment Committee and officers are indemnified as provided by City ordinance attached and incorporated as Appendix D.

#### **B. Ethics**

Investment Officers, Investment Committee members and employees involved in the investment process shall comply with the City's Code of Ethics attached and incorporated as Appendix B which requires disclosure of financial interests by April of each year. These individuals 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. Officers and employees shall disclose to the City Council any material investment decisions. Officers and employees shall disclose to the council any material financial interest in institutions that conduct investment or banking transactions with the City.

Any Investment officer who has a personal or business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that relationship or interest. Disclosure statements required under this subsection must be filed.

### **IX. COMPETITIVE SOLICITATION**

Except for Repurchase Agreements, Guaranteed Investment Contracts, and Public Funds Investment Pools, any new issue investment will be purchased through an Authorized Broker/Dealer or directly through the issuer. Investment Officers identify the best rate prior to the purchase of an Authorized Investment that meets the City's cash flow needs at the time.

Any Institution authorized to participate in the City's investment program must meet Collateral pledge requirements outlined in Section XI of these guidelines and must submit annual financial reports.

**X. AUTHORIZED COUNTER-PARTIES**

**A. Broker/Dealers**

Any broker/dealer seeking to sell an Authorized Investment to the City is required to complete the questionnaire approved by the Investment Committee and furnish supporting documentation required by the Investment Committee. Information on the firms shall be maintained by the Investment Officers or the Investment Advisor.

Securities qualifying as Authorized Investments shall only be purchased through those institutions approved by the Investment Committee.

**B. Policy Certification:**

Investments shall only be made with those Institutions who have executed a written certification in a form acceptable to the City, executed by a Qualified Representative of that Institution, and substantially to the effect that the Institution has:

1. Received, thoroughly reviewed and acknowledged, in writing, receipt and understanding of this Policy.
2. Acknowledged that the Institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Institution and the City that are not authorized by this Policy.

C. Investments shall only be made with those institutions who have met the qualifications and standards established by the City's Investment Committee and set forth in the Investment Procedures Manual.

D. The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

E. The City Treasurer will request the Investment Committee to authorize deletion of institutions for:

1. Slow response time;
2. Inability to compete with other authorized firms;
3. Insufficient market information on technical or fundamental expectations based on economic indicators;
4. Failed transactions or continuing operational difficulties;
5. Unwillingness to continue to abide by this Policy; the provisions listed in IX.A.;

6. Other reasons as approved by the Investment Committee.

## **XI. COLLATERALIZATION**

It is imperative that the securities in the Investment Portfolio be protected through independent safekeeping and all time deposits and demand bank cash balances be protected with sufficient collateral at a minimum of 102% daily of current market values to guard against market and volatility risk.

### **A. Pledged Collateral for Time and Demand Deposits**

Depository collateral is *pledged* to and not owned by the City. All collateral shall be held by a custodian approved by the City under an executed collateral agreement.

The market value of pledged collateral for time and demand deposits Collateral must be at least 102% of the principal plus accrued interest. All collateral shall be held by an independent custodian outside the holding company of the pledging bank. Original evidence of City collateralization in the form of original safekeeping receipts will be provided to the City Treasurer and will be maintained in the City Treasurer's Office. The custodian will provide a monthly listing of collateral describing the securities and giving a market value. An investment officer will approve and release all pledged collateral. The Investment Officers will monitor adequacy of collateralization on a weekly basis.

### **B. Collateral Substitution**

Collateralized investments and certificates of deposit often require substitution of Collateral. Any Institution must contact the Investment Officers for approval and settlement. The substituted collateral's value will be calculated and substitution approved if its value is equal to or greater than the required collateral value. Substitution is allowable for all transactions, but should be limited, to minimize the City's potential administrative problems.

### **C. Collateral Reductions**

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

### **D. Prohibited Securities**

Investment securities described in Section 2256.009(b), Government Code, shall not be eligible for use as collateral of City monies governed by this Policy.

## **XII. SAFEKEEPING OF CITY SECURITIES**

### **A. Third Party Safekeeping Agreement**

The City shall utilize its banking services depository or other banks for the safekeeping of City owned securities. The delivery of all securities into safekeeping will be done on a delivery versus payment basis.

**B. Safekeeping of Certificate of Deposit Collateral**

All Collateral securing bank and savings and loan deposits must be held by a Third Party Safekeeping Institution approved by the City, or Collateral may be held at the Federal Reserve Bank.

**C. Safekeeping of Repurchase Agreement Collateral**

Repurchase Agreement Collateral is restricted to U.S. Treasuries and must be delivered to a Third-Party Safekeeping Institution with which the City has (subject to the limitation described in Section XI.D above) established a third-party safekeeping agreement.

**D. Guaranteed Investment Agreement Collateral**

Guaranteed investment contract collateral is restricted to U.S. Treasuries and Agencies (subject to the limitation described in Section XI.D above) and must be delivered to a Third-Party Safekeeping Institution with which a third-party safekeeping agreement has been established pursuant to the terms of the guaranteed investment contract.

**XIII. INFORMATION REPORTING/PORTFOLIO EVALUATION**

**A.** The City Treasurer and Investment Analyst as designated Investment Officers are responsible for reporting to the Investment Committee and City Council on a quarterly basis in accordance with the Act.

**B.** Quarterly Investment Reports are to include the following in accordance with the Act:

- a. Combined Investment Portfolio Report of Market versus Book Values
- b. Combined Portfolio Composition
- c. Individual Portfolio Composition
- d. Cash and Cash Equivalents, U.S. Treasuries and Investments Greater than One year
- e. Combined Summary of Investment Transactions
- f. Combined Investment Portfolio - Weighted Average Maturity
- g. Investment Revenue
- h. Analysis of Excess Collateral Coverage
- i. Aggregate Activity Per Broker
- j. Comparison of Investment Returns to Benchmarks
- k. Investment Portfolio Report – Lake Texana Project and Packery Channel Project
- l. Bond Funds by Issue
- m. Pools and Money Market Accounts - Approved Institutional Brokers
- n. Economic and Interest Rate Forecast
- o. Glossary
- p. Compliance Statement
- q. Quarterly Investment Committee Meeting Minutes

### **Internal Reporting/Evaluation**

In addition, the following reports are to be submitted on a monthly basis:

- 1) Cash position by bank account
- 2) Collateral position
- 3) Investment transactions

### **C. External Reporting/Evaluations**

On a quarterly basis, any institution holding City time or demand deposits will provide to the Investment Officers for the institution's review a copy of the balance sheet and income statement for the Call Report for review. All depository and brokerage institutions will provide annual audited financial statements. Any Public Funds Investment Pools must provide reports and disclosure statements as required by the Act.

### **D. Record Retention**

The City follows the guidelines of retaining records for five years from City's current fiscal year, as recommended in the Texas State Library Municipal Records Manual or may be authorized by the City's local records management guidelines.

## **XIV. BANKING SERVICES**

All depository services are provided in the City's main depository agreement. Other services such as credit cards, direct deposit of payroll or other services may be administered through separate agreements. To aggressively invest Excess Cash Balances, controlled disbursements accounts, zero balance accounts and other cash management tools may be employed.

## **XIV. ANNUAL POLICY ADOPTION**

This Policy will be reviewed and adopted by the City Council no less than annually. The accepting ordinance resolution will include a description of all changes made to this policy.

## **XVI. GENERAL PROVISIONS**

- A. Audits and Inspections.** During regular business hours and as often as the Investment Officers deem necessary, the Institution providing certificates of deposit will make available for examination by the City Manager, his duly authorized agent, accountant, or legal representative, such records and data to assure the pledge of Collateral, availability of Collateral, and financial stability of the Institution.

- B. Compliance with Laws.** Each Institution agrees to comply with all federal, state, and local laws, rules, regulations, and ordinances. 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 and to make audits of all contract, invoices, materials, and other data relating to applicable Investments.
- C. Performance Audits.** The City's Annual External Financial Audit shall include a compliance audit of management controls on Investments and adherence to this Policy. If the City invests in other than money market mutual funds, investment public funds investment pools or accounts offered by its depository in the form of certificates of deposit or money market accounts; the quarterly reports prepared by Investment Officers for the City Council must be formally reviewed at least annually by an independent auditor. The results of the review must be reported to the City Council by that auditor.
- D. Investment Policy Resolution.** The resolution authorizing this Investment Policy is attached hereto as Appendix C.