

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

INVESTMENT POLICY

~~December 13, 2011~~

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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:

- | | |
|---|-------------------------|
| a. Short-term U.S. Treasuries: | Maximum Maturity |
| 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. U.S. Agencies: | Maximum Maturity |
| 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 Agreementsup 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 Poolup 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 AAAf 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.

APPENDIX A

Texas Public Funds Investment Act

Texas Government Code, Chapter 2256 Subchapter A

PUBLIC FUNDS INVESTMENT ACT
Chapter 2256, Texas Government Code

Effective as of September 1, 2011

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001 **Short Title.**

This chapter may be cited as the Public Funds Investment Act.

Sec. 2256.002 **Definitions.**

In this chapter:

(1) "Bond Proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book Value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

- (A) are not required by law to be deposited in the state treasury; and
- (B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

- (A) preservation and safety of principal;
- (B) liquidity; and
- (C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- (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 pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool, or
- (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.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Sec. 2256.003 Authority to Invest Funds; Entities Subject to this Chapter

(a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or
- (4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity 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 governing body of the investing entity by order, ordinance or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Sec. 2256.004 Applicability

(a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section 802.001;
- (2) state funds invested as authorized by Section 404.024;
- (3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995
- (4) funds invested by the Veterans Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code,
- (5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code, or
- (6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.) as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Sec. 2256.005 Investment Policies; Investment Strategies; Investment Officer.

(a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

- (1) be written;
- (2) primarily emphasize safety of principal and liquidity;
- (3) address investment diversification, yield, and maturity and the quality and capability of investment management; and
- (4) include:
 - (A) a list of the types of authorized investments in which the investing entity's funds may be invested;
 - (B) the maximum allowable stated maturity of any individual investment owned by the entity;
 - (C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio.
 - (D) methods to monitor the market price of investments acquired with public funds;
 - (E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and
 - (F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

- (1) orally;
- (2) in writing;
- (3) electronically; or
- (4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

- (1) understanding of the suitability of the investment to the financial requirements of the entity;
- (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 investment portfolio; and
- (6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission. An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

- (1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- (3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes

investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

- (1) received and reviewed the investment policy of the entity; and
- (2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year, a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. A state agency also shall report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Sec. 2256.006 Standard of Care.

(a) 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. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written investment policy of the entity.

Sec. 2256.007 Investment Training; State Agency Board Members and Officers.

(a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Sec. 2256.008 Investment Training; Local Governments.

- (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:
- (1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and
 - (2) except as provided by Subsection (b) and (e), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.
- (b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.
- (c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.
- (d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.
- (e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Sec. 2256.009 Authorized Investments: Obligations of, or Guaranteed by Governmental Entities.

- (a) Except as provided by Subsection (b), the following are authorized investment under this subchapter:
- (1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
 - (2) direct obligations of this state or its agencies and instrumentalities;
 - (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
 - (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.; and
 - (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent and
 - (6) bonds issued, assumed, or guaranteed by the State of Israel.
- (b) The following are not authorized investments under this section:
- (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
 - (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
 - (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Sec. 2256.010 Authorized Investments: Certificates of Deposit.

(a) A certificate of deposit or share deposit is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

- (1) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor;
- (2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage-backed securities of the nature described by Section 2256.009(b); or
- (3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

- (1) the funds are invested by an investing entity through:
 - (A) 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 as required by Section 2256.025; or
 - (B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;
- (2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;
- (3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
- (4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (A), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3 as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity

(c) In addition to the authority to invest funds in certificates of deposit under Subsections (a) and (b), an investment in certificates of deposit is an authorized investment under this subchapter if made in accordance with the following conditions:

- (a) the funds are invested by an investing entity through a broker that is selected from a list adopted by the investing entity as required in Section 2256.025 or through a depository institution that has its main office or a branch office in this state.
- (2) the broker or depository institution is selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity; and
- (3) the full amount of the principal and accrued interest of each of the certificates of deposit are insured by the United States or an institution of the United States.

Sec. 2256.011 Authorized Investments: Repurchase Agreements.

(a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by a combination of cash and obligations described by Section 2256.009(a)(1); and
- (3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date, obligations described by Section 2256.009(a)(1) at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Sec. 2256.0115 Authorized Investments: Securities Lending

(a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

- (b) To qualify as an authorized investment under this subchapter:
 - (1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;
 - (2) a loan made under the program must allow for termination at any time;
 - (3) a loan made under the program must be secured by:
 - (A) pledged securities described by Section 2256.009;
 - (B) pledged irrevocable letters of credit issued by a bank that is:
 - (i) organized and existing under the laws of the United States or any other state; and
 - (ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or
 - (C) cash invested in accordance with Section:
 - (i) 2256.009;
 - (ii) 2256.013;
 - (iii) 2256.014; or
 - (iv) 2256.016
 - (4) the terms of a loan made under the program must require that the securities being held as collateral be:
 - (A) pledged to the investing entity;
 - (B) held in the investing entity's name; and
 - (C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;
 - (5) a loan made under the program must be placed through:
 - (A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or
 - (B) a financial institution doing business in this state; and
 - (6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Sec. 2256.012 Authorized Investments: Banker's Acceptances

A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance;
- (2) will be, in accordance with its terms, liquidated in full at maturity;
- (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and
- (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank or of a bank holding company of which the bank is the largest subsidiary are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Sec. 2256.013 Authorized Investments: Commercial Paper.

Commercial paper is an authorized investment under this subchapter if the commercial paper:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance; and
- (2) is rated not less than A-1 or P-1, or an equivalent rating by at least:
 - (A) two nationally recognized credit rating agencies; or
 - (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Sec. 2256.014 Authorized Investment: Mutual Funds.

(a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with and regulated by the Securities and Exchange Commission;
- (2) provides the investing entity 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.)
- (3) has a dollar-weighted average stated maturity of 90 days or fewer; and
- (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- (5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

- (c) An entity is not authorized by this section to:
- (1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b); or
 - (2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or
 - (3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Sec. 2256.015 Authorized Investments: Guaranteed Investment Contracts.

(a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

- (1) has a defined termination date;
- (2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and
- (3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

- (1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
- (2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
- (3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- (4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- (5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Sec. 2256.016 Authorized Investment: Investment Pools.

(a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:
 - (A) the types and percentage breakdown of securities in which the pool is invested;
 - (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - (E) the size of the pool;
 - (F) the number of participants in the pool;
 - (G) the custodian bank that is safekeeping the assets of the pool;
 - (H) a listing of daily transaction activity of the entity participating in the pool;
 - (I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
 - (J) the portfolio managers of the pool; and
 - (K) any changes or addenda to the offering circular.

(e) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(f) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. 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 money fund shall report yield to its investors in accordance with regulations if the federal Securities and Exchange Commission applicable to reporting by money market funds.

(h) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed

- (1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or
- (2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(i) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an 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.

(j) If the investment pool operates an internet website, the information in a disclosure instrument or report described in Subsections (b), (c) (2) and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity and annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balance invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

Sec. 2256.017 Existing Investments.

An entity is not required to liquidate investments that were authorized investment at the time of purchase.

Sec. 2256.019 Ratings of Certain Investment Pools.

A 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 or no lower than investment grade by at least one nationally recognized rating service

Sec. 2256.020 Authorized Investments: Institutions of Higher Education.

In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

- (1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));
- (2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and
- (3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Sec. 2256.0201 Authorized Investment; Municipal Utility

- (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.
- (b) A payment by the municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.
- (c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.
- (d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuations.

Sec. 2256.0202. Authorized Investments: Municipal Funds from Management and Development of Mineral Rights.

- (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).
- (b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Sec. 2256.0203 Authorized Investments: Ports and Navigations Districts.

- (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.
- (b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1. P-1, or the equivalent by a nationally recognized credit rating agency.

Sec. 2256.0204 Authorized Investments: Independent School Districts

- (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:
 - (1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligations; or
 - (2) is an unsecured debt obligation.
- (b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.
- (c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control, in corporate bonds that, at the time of purchase, are rated by a nationally recognized rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.
- (d) An independent school district subject to this section is not authorized by this section to:
 - (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for payment of debt service, in corporate bonds; or
 - (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

- (e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:
 - (1) amends its investment policy to authorize corporate bonds as an eligible investment;
 - (2) adopts procedures to provide for:
 - (A) monitoring rating changes in corporate bonds acquired with public funds; and
 - (B) liquidating the investment in corporate bonds; and
 - (3) identifies the funds eligible to be invested in corporate bonds.
- (f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:
 - (1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or
 - (2) changes the rating on the corporate bonds to a rating less than "AA-" or the equivalent.
- (g) Corporate bonds are not an eligible investment for a public funds investment pool.

Sec. 2256.0205 Authorized Investment: Decommissioning Trust

- (a) In this section:
 - (1) "Decommissioning Trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R., Part 50 or other similar regulation.
 - (2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.
- (b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Sec. 2256.021 Effect of Loss of Required Rating.

An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Sec. 2256.022 Expansion of Investment Authority.

Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee approval of including the review in the audit plan under Section 321.013.

Sec. 2256.023 Internal Management Reports.

- (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.
- (b) The report must:
 - (1) describe in detail the investment position of the entity on the date of the report;
 - (2) be prepared jointly by all investment officers of the entity;
 - (3) be signed by each investment officer of the entity;
 - (4) contain a summary statement of each pooled fund group that states the:
 - (A) beginning market value for the reporting period;
 - (B) ending market value for the period; and
 - (C) fully accrued interest for the reporting period.
 - (5) 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;
 - (6) state the maturity date of each separately invested asset that has a maturity date;
 - (7) state the account or fund or pooled fund group in the state agency or local government for which each individual investment was acquired; and
 - (8) state the compliance of the investment portfolio of the state agency or local government as it relates to:
 - (A) the investment strategy expressed in the agency's or local government's investment policy; and
 - (B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Sec. 2256.024 Subchapter Cumulative

(a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

- (1) prohibit an investment specifically authorized by other law; or
- (2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

- (1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;
- (2) an entity created under Chapter 392, Local Government Code; or
- (3) an entity created under Chapter 394, Local Government Code.

Sec. 2256.025 Selection of Authorized Brokers

The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Sec. 2256.026 Statutory Compliance

All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules or regulations.

[SECTION 2256.027-2256.050 Reserved for expansion]

SUBCHAPTER B. MISCELLANEOUS PROVISIONS.

Sec. 2256.051 Electronic Funds Transfer.

Any local government may use electronic funds means to transfer or invest all funds collected or controlled by the local government.

Sec. 2256.052 Private Auditor.

Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Sec. 2256.053 Payment of Securities Purchased by State.

The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Sec. 2256.054 Delivery of Securities Purchased by State.

A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Sec. 2256.055 Deposit of Securities Purchased By State.

At the direction of the comptroller or the agency, a security purchased under this Chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

APPENDIX B

Article V Code of Ethics

ARTICLE V. CODE OF ETHICS*

DIVISION 1. RULES OF CONDUCT

Sec. 2-310. Preamble.

The purpose of this Code of Ethics is to promote public trust by establishing rules of conduct for city council members, board members, and employees; by providing a fair process for receiving and adjudicating complaints; and by requiring periodic financial disclosure. The rules of conduct form the basis for possible sanctions, and are therefore intended to clearly define proper conduct so that those who must comply may understand the rules and carry out their responsibilities consistently with the rules. It is recognized that situations with ethical implications will arise outside the prohibitions of the rules; in such situations, council members, board members, and employees are encouraged to keep in mind the ideal of the public trust and to conduct themselves in a manner to avoid the appearance of impropriety even where not compelled by the rules.

Sec. 2-311. Standards.

The following rules of conduct apply to all council members, board members, and employees:

Special privileges.

- (1) You shall not use your office for private advancement or gain or to secure special privileges or exemptions for yourself or others.
- (2) You shall not grant any special consideration, treatment or advantage to any person or group beyond that which is available to others generally.
- (3) (a) You shall not use city facilities, personnel, equipment or supplies for purposes unrelated to the interests of the city, except to the extent such are lawfully available to the public.

(b) You may not spend or authorize the spending of public funds for political advertising. This prohibition does not apply to a communication that factually describes the purposes of a measure if the communication does not advocate passage or defeat of the measure. This paragraph shall be construed consistently with Texas Election Code Section 255.003.
- (4) Unless you are a council member, you shall not use the prestige of your position with the city on behalf of any political party or cause.

Gifts:

- (5) You shall not accept or solicit any money, property, service or other thing of value by way of gift, favor, loan or otherwise that might reasonably tend to influence you in the

discharge of your official duties or which you know or should have known was offered with the intent to influence or reward your official conduct.

(6) In the event you receive any gift or loan of property or services on behalf of the city, you shall promptly deliver such gift or loan to the city manager for official acceptance and inventory of the city.

Conflicts of interest:

(7) In the event you or one of your relatives have an interest or any substantial interest in a contract or transaction involving the city which comes before you in the performance of your official duties, you shall make a written disclosure of your interest in the matter and abstain from any vote or decision and not participate in any discussion on the matter.

(8) You shall not engage in any outside activities or employment which will conflict or be incompatible with the full and proper discharge of your official duties, impair your independent judgment in the performance of your duties, or reflect discredit upon the city.

(9) You shall not represent any other private person, or group or interest in any action or proceeding against or adverse to the interest of the city or in any litigation in which the city is a party.

(10) You shall not represent any other private person or group in any action or proceeding in the municipal courts of the city which was instituted by city officers or employees in the course of their official duties.

(11) You shall not receive any fee or compensation for your official services from any source other than the city except as may be provided by law or authorized by the city council.

Actions adverse to the city:

(12) You shall not disclose information that could adversely affect the property or affairs of the city.

(13) You shall not knowingly perform or refuse to perform any act in order to deliberately thwart the execution of federal, state or local laws or regulations or the achievement of any official city programs.

(14) You shall not engage in any felony crime, misdemeanor involving moral turpitude, or other conduct that reflects discredit on the city.

Provisions for council members:

(15) As a council member, you shall not have a substantial interest in any contract with the city.

(16) In order to preserve and promote independent advice and decisions from city boards and the integrity of the independent board process as a council member, you shall not speak before any city board, commission or committee except on behalf of your own financial interest; in which case, you shall publicly state the nature of your financial interest and that you are appearing only in your private capacity.

(17) As a council member, you shall not give any orders to any employee except through the city manager as provided by the City Charter.

(18) As a council member, you shall not participate in the process for the appointment of or the confirmation of the appointment of a member to a board, commission or committee of the city, or to the governing body of an independent entity all or part of whose members are appointed by the city council, after you are aware that an individual seeking, being promoted for, or being considered for the position:

(1) is related to you within a degree described by Section 573.002, Texas Government Code;

(2) is your employer;

(3) is a director or officer of a business entity (as defined in Section 171.001, Texas Local Government Code) which is your employer; or

(4) owns ten (10) per cent or more of the voting stock or shares of a business entity which is your employer.

Provisions for board members:

(19) As a board member, you shall not have a substantial interest in any contract with the city in which your board or commission, or the city department related thereto, has jurisdiction.

(20) As a board member, you shall not represent or appear on behalf of the private interest of others before your board, commission or committee, the city council, or any board which has appellate jurisdiction over your board, commission or committee, concerning a matter which is within the subject matter jurisdiction of your board. (This rule does not prohibit you from appearing on behalf of your own financial interest even though others may have the same or a similar interest.)

Provisions for employees:

(21) As an employee you shall not have an interest in any contract with the city.

(22) Unless previously recommended by the city manager, and approved by the Ethics Commission, as an employee, you shall not, within twelve (12) months after leaving city employment, represent any other person or organization in any formal or informal appearance with the city council or any other agency or employee of the city concerning a project for which you had responsibility as an employee.

(23) As an employee, you shall not represent or appear on behalf of the private interest of others before the city council or any board, commission or committee of the city. (This rule does not prohibit you from appearing on behalf of your own financial interest even though others may have the same or a similar interest).

(24) As an employee, you may not be employed by any business or individual who has business dealings with or for your department, including any work that is subject to review or inspection by your department, even if you do not personally review or inspect the work of the business or individual.

Sec. 2-312. Definitions.

The following definitions apply to the above rules of conduct:

Board member: A member of any board, commission or committee of the city, including the board of any corporation created by the city.

Employee: Any person employed by the city, whether under civil service or not, including part-time employees and employees of any corporation created by the city.

Interest: Any direct or indirect pecuniary or material benefit in a contract or transaction other than:

(1) An interest which is shared by and available to all other persons similarly situated; or

(2) A remote or incidental interest which would not increase or decrease materially due to the action of the city or is less than two hundred dollars (\$200.00) in value; or

(3) An interest of a subcontractor which has no direct contractual relationship with the city, is receiving fair and reasonable compensation, and is not operating as a subterfuge to circumvent the code of ethics; or

(4) An interest in real property acquired by the city which could otherwise be accomplished only through eminent domain provided that the property must be acquired for a public purpose and just compensation must be paid under the Texas Constitution after obtaining an independent appraisal.

Relative: Spouse, father, mother, brother, sister, son, daughter, spouse's children, father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law and adoptive relationships being treated the same as natural relationships.

Substantial interest: Any interest which has a value of five thousand dollars (\$5,000.00) or more or represents ten (10) per cent or more of a person's gross income during the most recent calendar year.

Sec. 2-313. Effect of violation.

A violation of these rules of conduct shall subject the council member, board member or employee to appropriate disciplinary proceedings, but such violation shall not render the action of the city voidable by the city unless the action would not have been approved without the vote of the person who violated the rules of conduct.

Sec. 2-314. Exceptions to abstention requirement.

The requirement that a council member or board member abstain from voting on a matter or participating in discussion as contained in rule 7 of the rules of conduct shall not apply in the following situations, provided that such person has complied with the requirements of written disclosure of the interest:

- (a) In the event a majority of the members of the council or the board, commission or committee have filed a written disclosure of a conflict of interest on the matter and would be required to abstain; or
- (b) On the final approval of the budget when the person has abstained from a separate vote taken on the particular budget item pertaining to the conflict of interest and action or that particular item has been resolved.

Sec. 2-315. Freedom of expression.

Nothing contained in the code of ethics shall abridge the right of any citizen, whether or not a council member, board member or employee, to exercise his or her right of expression under the U.S. or Texas Constitutions.

Sec. 2-316. Lobbyist registration.

Subsection A. Persons required to register as lobbyists.

- (a) A person who engages in lobbying must register with the city secretary if, with respect to any client, the person engages in lobbying activities for compensation.
- (b) The following persons are not required to register under subsection (a):
 - (1) Media outlets. A person who owns, publishes or is employed by:
 - (A) a newspaper;
 - (B) any other regularly published periodical;
 - (C) a radio station;
 - (D) a television station;
 - (E) a wire service; or

(F) any other bona fide news medium that in the ordinary course of business disseminates news, opinions, or paid advertisements that directly or indirectly oppose or promote municipal questions to seek to influence official action relating thereto, if the person does not engage in other activities that require registration under Part E. This subsection does not exempt the news media or a person whose relation to the news media is only incidental to a lobbying effort or if a position taken or advocated by a media outlet directly impacts, affects, or seeks to influence a municipal question in which the media outlet has a direct or indirect economic interest.

(2) Mobilizing entity constituents. A person whose only lobbying activity is to encourage or solicit the members, employees, or owners (including shareholders) of an entity by whom the person is compensated to communicate directly with one or more city officials to influence municipal questions. This exception is intended to apply to neighborhood and other similar not-for-profit organizations.

(3) Governmental entities. Governmental entities and their officers and employees, provided the communications relate solely to subjects of governmental interest concerning the respective governmental bodies and the city.

(4) Unknown municipal questions. A person who does not know and has no reason to know that a municipal question is pending at the time of contact with a city official.

(5) Dispute resolution. An attorney or other person whose contact with a city official is made solely as part of resolving a dispute with the city, provided that the contact is solely with city officials who do not vote on or have final authority over any municipal question involved and so long as such an attorney complies with Rule 4.02 of the Texas Disciplinary Rules of Professional Conduct, as amended.

Subsection B. Definitions.

The following words and phrases have the meaning ascribed to them in this section unless the context requires otherwise:

(a) City official means the members of the city council, city manager, deputy and assistant city managers, city secretary, city attorney, assistant city attorneys, department heads, municipal court judges, and all members of any board, commission or committee of the city, including the board of any corporation created by the city.

(b) Client means any person on whose behalf lobbying is conducted. In the case of a coalition or association that employs or retains other persons to conduct lobbying activities, the client is the coalition or association and not its individual members.

(c) Compensation means money, service, facility or other thing of value or financial benefit that is received or is to be received in return for or in connection with services rendered or to be rendered. Compensation does not include a payment made to any individual regularly employed by a person if (1) the payment ordinarily would be made regardless of whether the individual engaged in lobbying activities and (2) lobbying activities are not part of the individual's regular responsibilities to the person making the

payment. Compensation does not include the financial gain that a person may realize as a result of the determination of a municipal question, unless that gain is in the form of a contingent fee.

(d) Lobby or lobbying means any oral or written communication (including an electronic communication) to a city official, made directly or indirectly by any person in an effort to influence or persuade an official to favor or oppose, recommend or not recommend, vote for or against, or take or refrain from taking action on any municipal question. The term lobby or lobbying does not include a communication:

- (1) merely requesting information or inquiring about the facts or status of any municipal question, matter, or procedure, and not attempting to influence a city official;
- (2) made by a public official or employee acting in his or her official capacity;
- (3) made by a representative of a media organization if the purpose of the communication is gathering and disseminating news and information to the public;
- (4) made in a speech, article, publication, or other material that is distributed and made available to the public, or through radio, television, cable television, or any other medium of mass communication;
- (5) made at a meeting open to the public under the Open Meetings Act;
- (6) made in the form of a written comment filed in the course of a public proceeding or any other communication that is made on the record in a public proceeding;
- (7) made in writing as a petition for official action and required to be a public record pursuant to established city procedures;
- (8) made in writing to provide information in response to an oral or written request by a city official for specific information;
- (9) the content of which is compelled by law;
- (10) made in response to a public notice soliciting communications from the public and directed to the official specifically designated in the notice to receive such communications;
- (11) made on behalf of an individual with regard to that individual's employment or benefits;
- (12) made by a fact witness or expert witness at an official proceeding; or
- (13) made by a person solely on behalf of that individual, his or her spouse, or his or her minor children.

(e) Municipal question means a public policy issue of a discretionary nature pending or impending before city council or any board or commission, including but not limited to proposed action, or proposals for action, in the form of ordinances, resolutions, motions, recommendations, reports, regulations, policies, nominations, appointments, sanctions, and bids, including the adoption of specifications, awards, grants, or contracts. The term municipal question does not include the day-to-day application, administration, or execution of city programs and policies.

Subsection C. Registration.

(a) A registration form shall be completed and filed by a person required to register prior to the commencement of lobbying activity for a client.

(b) A separate registration form must be filed for each client.

(c) The registration shall be on a form prescribed by the city secretary and shall include, to the extent applicable:

(1) the full name, phone number, permanent address, and nature of the business of:

(A) the registrant;

(B) the client;

(C) any lobbying firm for which the registrant is an agent or employee with respect to the client; and

(D) each employee or agent of the registrant who has acted or whom the registrant expects to act as a lobbyist on behalf of the client;

(2) a statement of all municipal questions on which the registrant will lobby for the client.

(d) A registrant shall file an amended registration if the information contained in the current registration changes or is incorrect.

(e) A registrant may file a termination of registration when no longer required to register.

APPENDIX C

**Resolution 029320
Approved December 13, 2011**

Resolution approving amendments to the City Investment Policy to incorporate legislative changes made in 2011 to the Public Funds Investment Act; 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 028870 on December 7, 2010; and

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

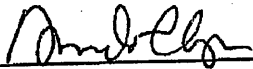
WHEREAS, the Public Funds Investment Act requires annual review by the governing body of its Investment Policy, and adoption of a written instrument stating that it has reviewed the investment policy and investment strategies;

WHEREAS, legislative changes were made to the Public Funds Investment Act in House Bill 2226;

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 incorporate legislative changes made in 2011 to the Public Funds Investment Act, and approves the Investment Policy as amended. A copy of the Investment Policy without appendices is attached.

ATTEST:



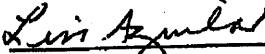
Armando Chapa
City Secretary

THE CITY OF CORPUS CHRISTI



Joe Adame
Mayor

APPROVED: November 1, 2011



Lisa Aguilar
Assistant City Attorney
for the City Attorney

Corpus Christi, Texas

13th of December, 2011

The above resolution was passed by the following vote:

Joe Adame	<u>Aye</u>
Chris N. Adler	<u>Aye</u>
Larry Elizondo, Sr.	<u>Aye</u>
Kevin Kieschnick	<u>Aye</u>
Priscilla G. Leal	<u>Aye</u>
David Loeb	<u>Aye</u>
John E. Marez	<u>Aye</u>
Nelda Martinez	<u>Aye</u>
Mark Scott	<u>Aye</u>

APPENDIX D
Corpus Christi Code of Ordinances
Chapter 39 Personnel Article I In General

Sec. 39-16. Legal defense and indemnification of city officers and employees.

- (a) *Definitions.* For the purposes of this section the term "officer" shall include any elected or appointed official of the city; and the term "employee" shall include all employees of the city, whether under civil service or not, including firemen and policemen, and shall include authorized volunteers, working under a volunteer program approved by the city manager.
- (b) *Indemnification.* Any officer or employee who is liable for the payment of any claims or damages arising out of the course and scope of employment shall be entitled to indemnification by the city provided that the acts or omissions resulting in such liability were done in good faith and without malicious or felonious intent. For the purposes of this section, the term "arising out of the course and scope of employment" shall not include any action, which occurs during a period of time in which the officer or employee is engaged in outside employment or is rendering contractual services to someone other than the city. Whether the acts were done in good faith, without malicious or felonious intent, and within the course and scope of employment shall be determined by the city, and such determination shall be final for the purposes of the representation and indemnity of this section; provided, however, that in the event such representation and indemnity have been denied by the city, if upon a trial on the merits the city determines that the officer or employee was acting in good faith, without malicious or felonious intent and within the scope of employment the indemnification hereunder shall be granted and reasonable legal expenses incurred in the defense of the claim reimbursed. The city shall not be liable for any settlement of any such claim or suit effected without consent, and the city reserves the right to assert any defense and make any settlement of any claim or suit that it deems expedient.
- (c) *Representation in actions.* The city shall have the right and duty to provide legal representation through the city attorney, or in its discretion through the selection of outside legal counsel, to any officer or employee sued in connection with any claim for damages or other civil action against such person arising out of the course and scope of employment, provided that such officer or employee is entitled to indemnification as set forth in this section. Such legal representation shall be provided at no cost to the officer or employee, and any officer or employee may have his or her own counsel assist in the defense at the sole expense of the officer or employee. The officer or employee shall cooperate fully with the city in preparation and presentation of the case, and the failure to cooperate shall waive such officer's or employee's right to representation and indemnity under this section.

- (d) *City's defenses.* Nothing in this section shall be construed as waiving the city's defense of governmental immunity to it or its employees or officers in any action brought against the city or such officer or employee. For any suit or claim arising under the Texas Tort Claims Act, the indemnity provided by this section shall be limited to the statutory limits applicable to the city provided in said Act, as amended.
- (e) *Notice.* The provisions of this section shall apply only where the city has been given notice of the action brought against any city officer or employee within ten (10) days of service of process upon the officer or employee.
- (f) *Disciplinary actions.* Nothing in this section shall prevent the city from taking disciplinary action against any officer or employee for conduct defended or indemnified by the city under this section, either before or after conclusion of the civil suit.
- (g) *Suits in behalf of the city.* Nothing in this section shall require the city to indemnify any officer or employee for recoveries made against him or her in suits by or on behalf of the city. The city council may, however, authorize the city attorney to represent any officer or employee in a suit brought by a taxpayer in behalf of the city against the officer or employee.