

RESOLUTION NO. 2018-588
(2018-2019 Investment Policy)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PARKER, COLLIN COUNTY, TEXAS, DECLARING THAT THE CITY COUNCIL HAS COMPLETED ITS REVIEW AND REVISION OF THE INVESTMENT POLICY AND INVESTMENT STRATEGIES OF THE CITY; CHANGES WERE MADE TO EITHER THE INVESTMENT POLICY OR INVESTMENT STRATEGIES; THE CITY OF PARKER HEREBY ADOPTS THE 2018-2019 INVESTMENT POLICY ATTACHED HERETO AS EXHIBIT "A"; PROVIDING A REPEALING CLAUSE; PROVIDING A SEVERABILITY CLAUSE; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, in accordance with the Public Funds Investment Act, Chapter 2256.005, Texas Government Code, the City Council of the City of Parker, Texas by resolution adopted an investment policy; and

WHEREAS, Section 2256.005, Texas Government Code requires the City Council to review the investment policies and investment strategies not less than annually and to adopt a resolution or order stating the review has been completed and recording any changes made to either the investment policies or investment strategies.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PARKER, COLLIN COUNTY, TEXAS AS FOLLOWS:

SECTION 1. The City Council of the City of Parker has completed its review of the investment policies and investment strategies. Certain changes were made to either the investment policies or investment strategies of the Investment Policy. The 2018-2019 Investment Policy, as amended, is attached as Exhibit "A" hereto.

SECTION 2. The City of Parker 2018-2019 Investment Policy attached hereto as Exhibit "A" be and the same is hereby adopted and shall govern the investment policies and investment strategies for the City, and shall define the authority of the Investment Officer and any additional Investment Committee members, collectively referred to as "Investment Officials," from and after the effective date of this resolution.

SECTION 3. All provisions of the resolutions of the City of Parker, Texas, in conflict with the provisions of this resolution be, and the same are hereby, repealed, and all other provisions not in conflict with the provisions of this resolution shall remain in full force and effect.

SECTION 4. Should any word, sentence, paragraph, subdivision, clause, phrase or section of this resolution be adjudged or held to be void or unconstitutional, the same shall not affect the validity of the remaining portions of said resolution which shall remain in full force and effect.

SECTION 5. This resolution shall become effective immediately from and after its passage.

DULY RESOLVED AND ADOPTED by the City Council of the City of Parker, Texas, on this the 13th day of November, 2018.



CITY OF PARKER:



Lee Pettle, Mayor

ATTEST:



Patti Scott Grey, City Secretary

APPROVED AS TO FORM:



Brandon Shelby, City Attorney

City of Parker

2018-2019 Investment Policy

ARTICLE I PURPOSE AND NEED FOR POLICY

Chapter 2256 of the Government Code, as amended from time to time by the Texas State Legislature (“Public Funds Investment Act”) requires each city to adopt rules governing its investment practices and to define the authority of the Investment Officer and any additional Investment Committee members. The 2018-2019 Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and prudent fiscal management of the City of Parker, Collin County, Texas funds.

ARTICLE II SCOPE

The Investment Policy applies to the investment and management of all funds under direct authority of the City of Parker, Collin County, Texas.

- A. These funds are accounted for in the City’s Annual Financial Report and include the following:
- (1) the General Fund;
 - (2) Special Revenue Funds;
 - (3) Capital Project Funds;
 - (4) Enterprise Funds;
 - (5) Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately;
 - (6) Debt Service Funds, including reserves and sinking funds to the extent not required by law or existing contract to be kept segregated and managed separately; and
 - (7) Any new fund created by the City unless specifically exempted from this policy by the City or by law.

This investment policy shall apply to all transactions involving the financial assets and related activity of all the foregoing funds.

- B. This policy excludes:
- (1) Employee Retirement and Pension Funds administered or sponsored by the City.
 - (2) Defeased bond funds held in trust escrow accounts.

C. Review and Amendment

The City Council is required by state statute and by this investment policy to review this investment policy and investment strategies not less than annually and to adopt a resolution stating the review has been completed and recording any changes made to either the policy or strategy statements.

**ARTICLE III
PRUDENCE**

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.

In determining whether an Investment Official 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 City.

All participants in the investment program will seek to act responsibly as custodians of the public trust. Investment Officials will avoid any transaction that might impair public confidence in the City's ability to govern effectively. Investment Officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism which is worthy of the public trust. Nevertheless, the City recognizes that in a marketable, diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment rate of return.

Investment Officials, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for market price changes, provided that these deviations from expectations are reported immediately to the Mayor and the City Council of the City of Parker, and that appropriate action is taken by the Investment Officer to control adverse developments.

**ARTICLE IV
OBJECTIVES**

A. Preservation and Safety of Principal

Preservation of capital is the foremost objective of the City. Each investment transaction shall seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value.

B. Liquidity

The City's investment portfolio will remain liquid to enable the City to meet all operating requirements, which can be reasonably anticipated. Liquidity will be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

C. Yield

The investment portfolio of the City shall be designed to meet or exceed the average rate of return on 91-day U.S. treasury bills throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. Legal constraints on debt proceeds that are not exempt from federal arbitrage regulations are limited to the arbitrage yield of the debt obligation. Investment Officials will seek to maximize the yield of these funds in the same manner as all other City funds. However, if the yield achieved by the City is higher than the arbitrage yield, positive arbitrage income will be averaged over a five year period, netted against any negative arbitrage income and the net amount shall be rebated to the federal government as required by federal regulations.

**ARTICLE V
RESPONSIBILITY AND CONTROL**

A. Delegation - Investment Officer; Investment Committee

Management responsibility to establish written procedures for the operation of the investment program consistent with this investment policy has been assigned to the Investment Officer, who shall be appointed by the City Council. The appointment is for a term of one year, and until a successor is qualified and appointed by the Council. Appointments are to be made for the Investment Officer, and the Investment Committee within June of each year, or as soon thereafter as possible. The review of this investment policy shall also take place in June of each year, as noted in Article IIC, above. Such procedures shall include explicit delegation of authority to persons responsible for the daily cash management operation, the execution of investment transactions, overall portfolio management and investment reporting. The Investment Officer shall be the chair of the Investment Committee and may delegate the daily investment responsibilities to either an internal Investment Official or an external investment advisor in combination with an internal Investment Official. The Investment Officer and/or his or her representative(s)

will be limited by conformance with all federal regulations, ordinances, and the statements of investment strategy. The Investment Officer and members of the Investment Committee are collectively referred to as "Investment Officials." The Mayor is a non-voting member and the City Administrator is a full member of the Investment Committee.

B. Subordinates

No person shall engage in an investment transaction except as provided under the terms of this policy, the procedures established by the City Council and the explicit authorization by the Investment Officer, with approval of the City Council, to withdraw, transfer, deposit and invest the City's funds. The City Council, by resolution, has authorized and appointed these individuals. The Investment Officer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate Investment Officials, if any are appointed by the City Council.

C. Internal Controls

Internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by Investment Officials. Controls deemed most important would include: control of collusion, separation of duties, third-party custodial safekeeping, avoidance of bearer-form securities, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, and documentation of and rationale for investment transactions.

In conjunction with the annual independent audit, a compliance audit of management controls on investments and adherence to the Investment Policy and the Investment Strategy shall be performed by the City's independent auditor.

D. Ethics and Conflicts of Interest

Any Investment Official of the City who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship with the Texas Ethics Commission and the City Council. For purposes of this section, an Investment Official has a personal business relationship with a business organization if:

- (1) the Investment Official 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 Official 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 Official.

Investment Officials of the City shall refrain from personal and business activities involving any of the City's custodians, depositories, broker/dealers or investment advisors, which may influence the officer's ability to conduct his duties in an unbiased manner. Investment Officials will not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the City's business for personal investment decisions, will in all respects subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchase and sales and will keep all investment advice obtained on behalf of the City and all transactions contemplated and completed by the City confidential, except when disclosure is required by law.

E. Investment Training Requirements

The Investment Officer, and all members of the Investment Committee as may be required, or prudent, shall attend at least one ten hour training session relating to their investment responsibilities within 12 months after assuming their duties. In addition to this ten-hour requirement, all members of the Investment Committee should receive not less than eight hours of instruction in their investment responsibilities at least once in every two-year period that begins on the first day of the fiscal year. This training is optional but preferred as long as the City continues to invest in interest-bearing deposit accounts or certificates of deposit only. The investment training session shall be provided by an independent source approved by the investment committee. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a Business Organization with whom the City of Parker may engage in an investment transaction. Such training shall include education in investment controls, credit risk, market risk, investment strategies, and compliance with investment laws, including the Texas State Public Funds Investment Act. A list will be maintained of the number of hours and conferences attended for each Investment Official and a report of such information will be provided to the City Council. Investment "officials" includes the Investment Officer, and may include the Mayor or other member(s) of the City Council, or staff selected by the City Council as alternate Budget or Investment Officer(s).

ARTICLE VI
INVESTMENT STRATEGY STATEMENTS

The City of Parker portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value among asset groups shall be analyzed and pursued as part of the investment program within the restrictions set forth by the investment policy.

The City of Parker maintains portfolios, which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios.

A. Operating Funds

Suitability - All investments authorized in the Investment Policy are suitable for Operating Funds.

Preservation and Safety of Principal - All investments shall be high quality securities with no perceived default risk.

Liquidity - Investment strategies for the pooled operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar-weighted average maturity of operating funds, based on the stated final maturity date of each security, will be calculated and limited to one year or less. Constant \$1 NAV investment pools and money market mutual funds shall be an integral component in maintaining daily liquidity. Investments for these funds shall not exceed an 18-month period from date of purchase.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The City's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Operating Funds shall be the 91-day Treasury bill.

B. Reserve and Deposit Funds

Suitability - All investments authorized in the Investment Policy are suitable for Reserve and Deposit Funds.

Preservation and Safety of Principal - All investments shall be high quality securities with no perceived default risk.

Liquidity - Investment strategies for reserve and deposit funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund from investments with a low degree of volatility. Except as may be required by the bond ordinance, specific to an individual issue, investments should be of high quality, with short-to-intermediate-term maturities. The dollar-weighted average maturity of reserve and deposit funds, based on the stated final maturity date of each security, will be calculated and limited to three years or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The City's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Reserve and Deposit Funds shall be the 91-day Treasury bill.

C. Bond and Certificate Capital Project Funds and Special Purpose Funds

Suitability - All investments authorized in the Investment Policy are suitable for Bond and Certificate Capital Project Funds and Special Purpose Funds.

Preservation and Safety of Principal - All investments shall be high quality securities with no perceived default risk.

Liquidity - Investment strategies for bond and certificate capital project funds, special projects and special purpose funds portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of investments held should not exceed the estimated project completion date or a maturity of no greater than five years. The dollar-weighted average maturity of bond and certificate capital project funds and special purpose funds, based on the stated final maturity date of each security, will be calculated and limited to three years or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The City's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Bond and Certificate Capital Project Funds and Special Purpose Funds shall be the 91-day Treasury bill. A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield of the applicable bond or certificate.

D. Debt Service Funds

Suitability - All investments authorized in the Investment Policy are suitable for Debt Service Funds.

Preservation and Safety of Principal - All investments shall be high quality securities with no perceived default risk.

Liquidity - Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date. The dollar-weighted average maturity of debt service funds, based on the stated final maturity date of each security, will be calculated and limited to one year or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The City's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Debt Service Funds shall be the 91-day Treasury bill.

ARTICLE VII AUTHORIZED INVESTMENTS

- A. Obligations of the United States or its agencies and instrumentalities.
- B. Direct obligations of the State of Texas or its agencies and instrumentalities.
- C. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, the State of Texas, or the United States or its instrumentalities.
- D. Obligations of states, agencies, 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.
- E. Joint Investment Pools of political subdivisions in the State of Texas, which invest in instruments and follow practices allowed by current law. A 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.
- F. Certificates of Deposit issued by a depository institution that has its main office or branch office in Texas:
 - (1) and such Certificates of Deposit are:
 - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their successors; or
 - b. Secured by obligations described in Article VI, sections A through D above.
 - (2) or such depository institution contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Government Code (Public Funds Investment Act) as amended.
- G. Fully collateralized repurchase or reverse repurchase agreements, including flexible repurchase agreements (flex repo), with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged to the City held in the City's name by a third party selected by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. The securities received for

repurchase agreements must have a market value greater than or equal to 103 percent at the time funds are disbursed. All transactions shall be governed by a Master Repurchase Agreement between the City and the primary government securities dealer or financial institution initiating Repurchase Agreement transactions.

The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received 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.

- H. No-load money market mutual funds if the mutual fund:
 - (1) Is registered with and regulated by the Securities and Exchange Commission;
 - (2) Has a dollar-weighted average stated maturity of 90 days or fewer; and
 - (3) Includes in its investment objectives the maintenance of a stable net asset value of one dollar for each share.

- I. Investments in compliance with Texas Government Code section 2256.010(b), generally known as the CDAR's program. (Resolution 2008-245 amendment to Investment Policy)

- J. Investment instruments not authorized for purchase by the City of Parker include the following:
 - (1) Bankers Acceptances;
 - (2) "Bond" Mutual Funds;
 - (3) Collateralized Mortgage Obligations of any type; and
 - (4) Commercial Paper, except that the City can invest in local government investment pools and money market mutual funds that have commercial paper as authorized investments. A local government investment pool or money market mutual fund that invests in commercial paper must meet the requirements of Article VI, Sections E and H above.

**ARTICLE VIII
PORTFOLIO AND INVESTMENT ASSET PARAMETERS**

A. Bidding Process for Investments

It is the policy of the City to require competitive bidding for all investment transactions (securities and bank C.D.s) except for:

- (1) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates); and
- (2) treasury and agency securities purchased at issue through an approved broker/dealer.

At least three bids or offers must be solicited for all other investment transactions. In a situation where the exact security being offered is not offered by other dealers, offers on

the closest comparable investment may be used to establish a fair market price of the security. Security swaps are allowed as long as maturity extensions, credit quality changes and profits or losses taken are within the other guidelines set forth in this policy.

B. Maximum Maturities

The City of Parker will manage its investments to meet anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase.

C. Maximum Dollar-Weighted Average Maturity

Under most market conditions, the composite portfolio will be managed to achieve a one-year or less dollar-weighted average maturity. However, under certain market conditions. Investment Officials may need to shorten or lengthen the average life or duration of the portfolio to protect the City. The maximum dollar-weighted average maturity based on the stated final maturity, authorized by this investment policy for the composite portfolio of the City shall be three years.

D. Diversification

The allocation of assets in the portfolios should be flexible depending upon the outlook for the economy and the securities markets. In establishing specific diversification strategies, the following general policies and constraints shall apply.

- (1) Portfolio maturities and call dates shall be staggered in a way that avoids undue concentration of assets in a specific sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- (2) To attain sufficient liquidity, the City shall schedule the maturity of its investments to coincide with known disbursements. Risk of market price volatility shall be controlled through maturity diversification such that aggregate realized price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- (3) The following maximum limits, by instrument, are established for the City's total portfolio:
 - U.S Treasury Notes/Bills 100%
 - U.S. Government Agencies & Instrumentalities..... 100%
 - U.S. Treasury & U.S. Agency Callables..... 25%
 - Certificates of Deposit 25%
 - Repurchase Agreements (*See D. (4) below*)..... 50%
 - Money Market Mutual Funds (*See D.(5) below*)..... 100%
 - Local Government Investment Pools (*See D.(5) below*)..... 100%
 - State of Texas Obligations & Agencies 25%
 - Obligations of states, agencies, cities and other political subdivisions of any state25%
 - CDARS 100%

- (4) The City shall not invest more than 50% of the investment portfolio in repurchase agreements, excluding bond proceeds and reserves.
- (5) The City shall not invest more than 90% of the investment portfolio in any individual money market mutual fund or government investment pool. (Revised per Resolution No. 2018-588)
- (6) The investment committee shall review diversification strategies and establish or confirm guidelines on at least an annual basis regarding the percentages of the total portfolio that may be invested in securities other than U.S. Government Obligations. The investment committee shall review quarterly investment reports and evaluate the probability of market and default risk in various investment sectors as part of its consideration.

**ARTICLE IX
AUTHORIZED BROKER/DEALERS
AND FINANCIAL INSTITUTIONS**

- A. Investment Officials will maintain a list of financial institutions and broker/dealers selected by credit worthiness, who are authorized to provide investment services to the City. These firms may include:
- (1) all primary government securities dealers; and
 - (2) those regional broker/dealers who qualify under Securities and Exchange Commission Rule 15C3-1(uniform net capital rule), and who meet other financial credit criteria standards in the industry.

The Investment Officials may select up to six firms from the approved list to conduct a portion of the daily City investment business. These firms will be selected based on their competitiveness, participation in agency selling groups and the experience and background of the salesperson handling the account. The approved broker/dealer list will be reviewed and approved along with this investment policy at least annually by the investment committee.

- B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officials with the following:
- (1) Audited financial statements;
 - (2) Proof of National Association of Securities Dealers (N.A.S.D.) certification, unless it is a bank;
 - (3) Resumes of all sales representatives who will represent the financial institution or broker/dealer firm in dealings with the City; and
 - (4) An executed written instrument, by the qualified representative, in a form acceptable to the City and the business organization substantially to the effect that the business organization has received and reviewed the investment policy of the City and acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted

between the City and the organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

ARTICLE X SAFEKEEPING AND CUSTODY OF INVESTMENT ASSETS

All security transactions, including collateral for repurchase agreements entered into by the City shall be conducted using the delivery vs. payment (DVP) basis. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the safekeeping bank. The only exceptions to DVP settlement shall be wire transactions for money market funds and government investment pools. The safekeeping or custody bank is responsible for matching up instructions from the City's Investment Officials on an investment settlement with what is wired from the broker/dealer, prior to releasing the City's designated funds for a given purchase. The security shall be held in the name of the City or held on behalf of the City in a bank nominee name. Securities will be held by a third party custodian designated by the Investment Officials and evidenced by safekeeping receipts or statements. The safekeeping bank's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City. A safekeeping agreement must be in place, which clearly defines the responsibilities of the safekeeping bank.

ARTICLE XI COLLATERAL

The City's depository bank shall comply with Chapter 2257 of the Government Code, Collateral for Public Funds, as required in the City's bank depository contract.

A. Market Value

The Market Value of pledged Collateral must be equal to or greater than 102% of the principal and accrued interest for cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insurance coverage. The Federal Reserve Bank and the Federal Home Loan Bank are designated as custodial agents for collateral. An authorized City representative will approve and release all pledged collateral. The securities comprising the collateral will be marked to market on a monthly basis using quotes by a recognized market pricing service quoted on the valuation date, and the City will be sent reports monthly.

B. Collateral Substitution

Collateralized investments often require substitution of collateral. The Safekeeping bank must contact the City for approval and settlement. The substitution will be approved if its value is equal to or greater than the required collateral value.

C. Collateral Reduction

Should the collateral's market value exceed the required amount, the Safekeeping bank may request approval from the City to reduce Collateral. Collateral reductions may be permitted only if the collateral's market value exceeds the required amount.

D. Holding Period

The City intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years. Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve month period.

E. Insurance or Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Finance Director or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed weekly to assure that the market value of the pledged securities is adequate.

ARTICLE XII INVESTMENT REPORTS

A. Reporting Requirements

The Investment Officials shall prepare a quarterly investment report in compliance with section 2256.023 of the Public Funds Investment Act of the State of Texas. The report shall be submitted to the City Council and the Investment Committee within 45 days following the end of the quarter.

B. Investment Records

The Investment Officer shall be responsible for the recording of investment transactions and the maintenance of the investment records with reconciliation of the accounting records and of investments carried out by an accountant. Information to maintain the investment program and the reporting requirements, including pricing or marking to market the portfolio, may be derived from various sources such as: broker/dealer research reports, newspapers, financial on-line market quotes, direct communication with broker/dealers,

market pricing services, investment software for maintenance of portfolio records, spreadsheet software, or external financial consulting services relating to investments.

C. Auditor Review

The City's independent external auditor must formally review the quarterly investment reports annually to insure compliance with the State of Texas Public Funds Investment Act and any other applicable State Statutes.

**ARTICLE XIII
INVESTMENT COMMITTEE**

A. Members

The Investment Committee, consisting of the Mayor or his or her designee, the City Administrator, and the Investment Officer, and any other designated Investment Officials, if any, shall review the City's investment strategies and monitor the results of the investment program at least quarterly. This review can be done by reviewing the quarterly written reports and by holding committee meetings as necessary. The committee will be authorized to invite other advisors to attend meetings as needed.

B. Scope

The Investment Committee shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification, maturity structure, potential risk to the City's funds, evaluation and authorization of broker/dealers, rate of return on the investment portfolio, review and approval of training providers and compliance with the investment policy. The Investment Committee will also advise the City Council of any future amendments to the investment policy that are deemed necessary or recommended.

C. Procedures

The investment policy shall require the Investment Committee to provide minutes of investment information discussed at any meetings held. The committee should meet at least annually to discuss the investment program and policies.

GLOSSARY of COMMON TREASURY TERMS

Agencies: Federal agency securities.

Asked: The price at which securities are offered.

Bid: The price offered for securities.

Bankers' Acceptance (BA): A draft of bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CDARS: Certificate of Deposit Account Registry Service – A program that allows a depositor to deposit funds at one bank in excess of the FDIC insured limit, with the excess funds being divided and deposited in other banks in the CDARs program. The purpose of CDARS is to help depositors who invest in money market accounts or certificate of deposits (CD's) to stay below FDIC insurance limits at any given bank. Usually, to avoid exceeding FDIC limits at a single bank, consumers deposit their money in different banks. CDARS is a program that eliminates the need to go from bank to bank in order to deposit money, and is comprised of a network of banks.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (DVR) (also called free). Delivery versus payment means delivery of securities with an exchange of money for the securities. Delivery versus receipt means delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, for example, U.S. Treasury bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, for example, S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

Federal Funds Rate (the "Fed Rate"): The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks in relation to member commercial banks.

Federal National Mortgage Association (FNMA or Fannie Mae): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and secondary loans in addition to fixed rate mortgages. FNMA's securities are highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines

regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve (12) regional banks, and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable quantities can be purchased at those quotes.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party, and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allows investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity: The date on which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to

influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A primary dealer is made up of a group of government securities dealers that submits daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and is subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

Prudent Person Rule: An investment standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Qualified Public Depositories: A financial institution that does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, and that has segregated for the benefit of the Public Deposit Protection Commission eligible collateral having a value of not less than its maximum liability and which has been approved by the commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SEC Rule 15C3-1: See uniform Net Capital Rule.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Treasury Bills (T Bills): A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate-term, coupon-bearing U.S. Treasury securities having initial maturities from one to ten years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) **Income Yield** is obtained by dividing the current dollar income by the current market price of the security. (b) **Net Yield** or **Yield to Maturity** is the current income yield minus any premium above par.