

INVESTMENT STRATEGY

The investment strategy, of the City of Texas City, Texas, is adopted to provide investment guidelines that will minimize the risk of loss, whereby the City of Texas City, Texas will pursue a passive investment strategy. In order to make effective use of the City's resources, all monies shall be pooled into one fund, except for those monies required to be accounted for in other accounts as stipulated by applicable laws, bond covenants, contracts or City policy. Investments will be purchased with the intent of holding to maturity and will only be sold early under exceptional circumstances. In purchasing investments, the Investment Officer will attempt to follow a ladder strategy to ensure that the portfolio will meet the City's liquidity needs. Investment priorities, in order of priority, are as follows:

1. **Suitability** – Any investment allowed by the Investment Policy is suitable.
2. **Preservation and Safety of Principal** – Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
3. **Liquidity** – The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operational requirements that might reasonably be anticipated.
4. **Marketability** – Investments should have an active and efficient secondary market to enable the City to liquidate investments prior to the maturity if the need should arise.
5. **Diversification** – The Investment Officer will attempt to maintain a diversified portfolio with regard to security type, financial institution providing the security, and maturity.
6. **Yield** – The City's investment portfolio shall be designed with the objective of attaining the maximum rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow characteristics of the portfolio.

City of Texas City, Texas **Investment Policy**

The Public Funds Investment Act, Chapter 2256, Texas Government Code, as Amended (“PFIA” herein), requires each city to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City of Texas City funds.

I. POLICY

It is the policy of the City of Texas City, Texas (“City”) to invest public funds in a manner that will ensure the preservation of capital, conform to all applicable State and Local statutes governing the investment of public funds and provide reasonable investment returns. ~~Investments shall be made in a manner, which will provide the maximum security of principal invested through limitations and diversification. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The City shall invest all funds deemed in excess of current needs. “Current needs” are hereby defined as expenditures to be required within a given ninety- (90) -day period. It is the intent of the City to be in complete compliance with local law and the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code.~~

II. SCOPE

The investment policy applies to all the financial assets and funds held by the City, except for the Firemen’s Relief and Retirement Fund. These funds are defined in the City of Texas City’s Comprehensive Annual Financial Report and include:

A. Funds

1. General Funds
2. Special Revenue Funds
3. Capital Projects Funds
4. Enterprise Funds
5. Internal Service Funds
6. Debt Service Funds
7. Trust and Agency Funds
8. ~~Any new funds created by the City, unless specifically exempted.~~

Any new funds created by the City will be subject to this policy unless specifically exempted by the City Council. To maximize the effective investment of assets, all funds mentioned above will pool their cash balances for investment purposes. The income derived from investing activities will be distributed to the various funds based on calculation of their average balances.

~~B. Pooled Investments.~~

~~In order to make effective use of the City's resources, all funds shall be pooled into one investment bank account, except for those funds accounted for in the bank accounts as deemed necessary, or as stipulated by applicable laws, bond covenants or contracts. The income derived from this pooled investment account shall be used in a manner that best serves the public trust and interests of the City.~~

~~C. Fund Restrictions.~~

~~This policy shall not supercede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Policy other than those in conflict.~~

~~D. Public Record~~

~~The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Investment Officer and City staff shall recognize that the investment activities of the City are a matter of public record.~~

III. INVESTMENT OBJECTIVES

The City of Texas City shall manage and invest its cash with ~~six (6)~~ three (3) primary objectives, listed in order of priority: **suitability, safety, liquidity, marketability, diversification and yield**. The safety of principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

~~The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.~~

~~To accomplish this, the City's principal investment objectives in order of priority are as follows:~~

~~A. Suitability~~

~~Each investment must be in conformance with all Federal regulations, State of Texas statutes, and other legal requirements including the City Charter, City Ordinances, and this Investment Policy.~~

Safety

Safety of principal is the foremost objective of the City. Investment of City funds shall be undertaken in a manner that seeks to ensure the preservation of capital and the protection of investment principal in the overall portfolio. ~~The objective will be to mitigate credit and interest rate risk.~~

- (1) ~~**Credit Risk**~~ The City will minimize credit risk, the risk of loss due to the failure of the security issuer or back, by:
- a. ~~Limiting investments to the safest types of securities~~
 - b. ~~Pre-qualifying the financial institutions and broker/dealers with which the City will do business~~
 - c. ~~Diversifying the investment portfolio so that potential losses on individual securities will be minimized.~~
- (2) ~~**Interest Rate Risk**~~ the City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
- a. ~~Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell on the open market prior to maturity~~
 - b. ~~Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.~~

Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated disbursement schedules of the City.

~~B. Marketability~~

~~The marketability of each investment shall be considered in an effort to minimize loss should the need arise to liquidate to liquidate the investment before maturity.~~

~~C. Diversification~~

~~Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of brokers/dealers for diversification and market coverage. Competitive bidding will be used on each sale and purchase.~~

Yield

The City's investment portfolio shall be designed with the objectives of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow of the portfolio. Return on investment is of least

importance compared to the safety and liquidity objectives described above. "Market rate of return" may be defined as the average yield of the current three-month U.S. Treasury Bill or such other index that closely matches the average maturity of the portfolio. ~~Securities may be sold prior to maturity for cash flow purposes to meet disbursement schedules in emergencies when funds cannot be borrowed on a short term basis. Any losses for early maturity liquidation should be minimized, and they should be reported as such to the Director of Finance and City Commission in a timely manner.~~

IV. INVESTMENT STRATEGY

~~The City of Texas City maintains a pooled investment portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio. In order to minimize the risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:~~

A. Operating Funds

~~Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to structure a portfolio, which will minimize volatility during economic cycles. Article XI., Section 1-3 of the City Charter directs the City to "invest all funds deemed in excess of current needs in the manner authorized by the laws of the State of Texas and the investment policy approved by the City Commission; current needs are hereby defined as expenditures to be required within a ninety (90) day period." In order to be in compliance with the City Charter, the City must maintain a bank balance sufficient to cover required expenditures for a ninety (90) day period. These funds deemed as "current needs" shall be placed in a money market mutual fund account held at the City's designated depository, so that liquidity will not become an issue. Funds deemed "excess" shall be invested by purchasing high quality, short-term securities, which will complement each other in a laddered maturity structure. A dollar weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity date of each security.~~

B. Debt Service Funds

~~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, or funds shall be maintained in an investment pool or money market mutual fund to be available for debt service payments.~~

~~C. Construction and Special Purpose Funds~~

~~Investment strategies for construction projects or special purpose portfolios will have as their primary objective to assure that anticipated cash flow are matched with adequate investment liquidity. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality, with short to medium term maturities.~~

IV. STANDARDS OF CARE

Delegation of Investment Authority

Article 11, Section 1 of the Charter of the City of Texas City designates the Director of Finance. The Director of Finance, acting on behalf of the City Commission, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Director of Finance may appoint an Investment Officer whose responsibility shall be to invest the funds on behalf of the City in accordance with this investment policy. The City Commission is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

A. Investment Procedures

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, which are consistent with this investment policy. Procedures will include reference to safekeeping, require and include PSA master repurchase agreements, wire transfer agreements; banking services contracts, and other investment related activities.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the Director of Finance.

Investment Training

The Chief Financial Officer and all designated Investment Officers of the City shall:

- (1) Attend at least one training session, from an independent source approved by the City Commission and containing at least 10 hours of instruction relating to the responsibilities under this policy within 12 months after taking office or assuming duties; and

- (2) Attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities.

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

~~Additional training in the investment of public funds is encouraged and investment courses recommended or sponsored by the organizations listed in the Appendix are hereby approved.~~

Standard of Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Mayor any personal business relationship in financial institutions with which they conduct business. An employee or officer has a personal business relationship with a business organization if:

1. The employee or 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 employee or officer from the business organization exceed 10 percent of the employee's gross income for the previous year; or
3. The employee or 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 employee or officer.

They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio including an individual who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity. Disclosure under this section shall be accomplished by filing a statement with the Texas Ethics Commission and the City Commission.

Prudence

~~The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. The standard states:~~

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 expected income to be derived.

- ~~(1) Investment of funds shall be governed by the following objectives, in order of priority:
 - a. Preservation and safety of principal
 - b. Liquidity
 - c. Maturity
 - d. Yield~~

- ~~(2) In determining whether investment decisions were made exercising prudence, the following shall be taken into consideration:
 - a. The investment of all funds, taken as a whole, rather than the prudence of a single investment, and
 - b. Whether the investment decision is consistent with the written Investment Policy of the City at that time.~~

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Limitation of Personal Liability

~~The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security’s credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.~~

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will

maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

Internal Controls/Annual Compliance Audit

The Investment Officer shall establish a system of written internal controls which shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City. In conjunction with the City's annual financial audit, a compliance audit shall be performed of management controls on investments and adherence to the City's established investment policies.

V. SUITABLE AND AUTHORIZED INVESTMENTS

~~Acceptable investments under this policy shall be limited to the instruments listed below. The investments are to be chosen in a manner that promotes diversity or market sector and maturity. The choice of high-grade government investments and high-grade, money market instruments are designed to assure the marketability of those investments should liquidity needs arise.~~

Acceptable investments under this policy shall be limited to the instruments as described by the Texas Government Code; Chapter 2256, Sections 2256.09 through 2256.011 and Sections 2256.013 through 2256.016 of the Public Funds Investment Act. Investment of funds in any instrument or security not authorized for investment under the Act is prohibited.

Authorized

1. ~~Direct Obligations of the United States Government:
Obligations of the United States Government, U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds, not to exceed five years to stated maturity.~~

U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds as well as Bonds or other interest bearing obligations for which the principal and interest are guaranteed by the full faith and credit of the United States government.

- ~~2. Debentures or Discount Notes
Issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment. Examples include Federal Agencies and instrumentalities including but not limited to, discount notes, callables and debentures of the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), and the Federal Home Loan Mortgage Corporation (FHLMC).~~

~~a. **Bonds or Other Interest Bearing Obligations**~~

~~Which the principal and interest are guaranteed by the full faith and credit of the United States government.~~

3. Time Certificates of Deposit, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, in state or national banks. Any deposits exceeding FDIC insurance limits shall be collateralized at 102% of the face amount of the Certificate of Deposit by securities listed in 1 – 2 above and held by the City's custodial bank. Bids for Certificates of Deposit may be solicited orally, in writing, electronically or using any combination of these methods.

~~1. Fully insured certificates of deposit from a bank domiciled in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity.~~

~~2. Certificates of deposit from a bank domiciled in the State of Texas which are collateralized with U.S. Treasury or agency issues which are 102% of the City's investment, pledged and held with the City's custodial bank or unconditional letters of credit from the Federal Home Loan Bank or the Federal Reserve. The term of the certificates of deposit shall not exceed one year to the stated maturity.~~

4. Repurchase Agreements with a defined termination date of 90 days or less collateralized by securities listed in 1 -2 above. Collateral must have a minimum market value of 102% of the repurchase agreement, and must be held by the custodian bank or other independent third-party custodian contracted by the City. Bond proceeds may be invested in flexible repurchase agreements with maturity dates not exceeding the expected final project expenditure if a formal bidding process is followed and properly documented for IRS purposes.

~~Repurchase agreement as defined by the Public Funds Investment Act, not to exceed 180 days to stated maturity, provided an executed PSA Master Repurchase Agreement is on file with the City and the counter party bank or primary dealer.~~

~~Repurchase agreements purchased by the City must be:~~

~~1. Secured by obligations of the United States or its agencies and instrumentalities;~~

~~2. Pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and~~

- ~~3. Placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state; and~~

~~Proceeds from bond issues may be invested in flexible repurchase agreements that exceed 180 days to maturity, provided that the defined termination date of the agreement does not exceed the estimated final expenditure date of the bond proceeds.~~

~~5. State and Local Investment Pools~~

~~AAA-rated Investment Pools organized under the Texas Interlocal Cooperation Act that follow the requirements in the Public Funds Investment Act and which have been specifically approved by the City Commission.~~

~~Texas local government investment pools as defined by the Public Funds Investment Act. Investment pools must meet all criteria specified in the Public Funds Investment Act Sections 2256.016 and 2256.019. Additionally, all provisions related to required disclosure and reporting by the investment pool must be adhered to.~~

~~If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the City until this policy has been amended and the amended version approved by the City Commission.~~

- ~~6. Commercial Paper maturing within 180 days carrying a minimum rating of A-1, P-1 or F-1.~~
- ~~7. AAA-rated Money Market Mutual Funds registered with the Securities and Exchange Commission that invest exclusively in investments described in this section.~~

Not Authorized

The following security types are not permitted:

- ~~1. Interest-Only Strips (IO's): Obligations whose payments represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no principal.~~
- ~~2. Principal-Only Strips (PO's): Obligations whose payments represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.~~
- ~~3. Collateralized Mortgage Obligations (CMO's): Obligations that have a stated final maturity date of greater than 10 years.~~

4. Any security, the interest rate of which is determined by an index that adjusts opposite to the changes in the Market Index (inverse floaters).

Effect of Loss of Required Rating

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

If any security that requires a minimum investment rating is downgraded below that minimum rating subsequent to purchase, it will no longer be considered an authorized investment. As a result, the City shall take all prudent measures to liquidate the security in an effort to preclude or reduce principle loss.

- a. ~~**GASB Statement 40-Deposit and Investment Risk Disclosures** This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The risks are as follows:
 1. ~~**Credit Risk**~~-The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
 2. ~~**Concentration of Credit Risk**~~-The risk of loss attributed to the magnitude of a government's investment in a single issuer.
 3. ~~**Interest Rate Risk**~~-The risk that changes in interest rates will adversely affect the fair value of an investment or a deposit.
 4. ~~**Foreign Currency Risk**~~-The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.~~

VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer authorizes the following financial institutions for use:

- ~~A. Banks chartered by the State of Texas.~~
- ~~B. Brokers approved and designated as primary dealers by the Federal Reserve Bank of New York.~~
- ~~C. Secondary or regional brokers who are National Association of Security Dealers certified and carry Texas State Registration with net capital of \$200 million or more.~~

~~All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:~~

- ~~(1) Audited financial statements for the most recent period.~~
- ~~(2) Proof of certification by the National Association of Securities Dealers (NASD).~~
- ~~(3) Proof of current registration with the State Securities Commission.~~
- ~~(4) Completion of City's broker/dealer questionnaire (Exhibit A).~~

~~A list of no more than five (5) authorized broker/dealers will be established and maintained. Every dealer with whom the City transacts business will be provided a copy of this investment policy to assure that they are familiar with the goals and objectives of the investment program. The broker/dealer will be required to return a signed copy of the certification form certifying that the policy has been received and reviewed (Exhibit B).~~

~~As investments are made, the Investment Officer shall rotate from authorized bidder's list for bids/offers. An attempt will be made to alternate to all names on the list.~~

Authorized Brokers/Dealers

The Investment Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and brokers/dealers who desire to become a qualified bidder for investment transactions must supply the Investment Officer with a completed Broker/Dealer Questionnaire and Certification, which shall include the following:

1. An audited financial statement for the most recent period.
2. Proof of certification by the Financial Industry Regulatory Authority (FINRA).
3. Proof of current registration with the State Securities Commission.

Financial institutions eligible to transact investment business with the City shall be presented a written copy of this Investment Policy.

Additionally, the registered principal of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the registered principle has received and reviewed this Investment Policy, and acknowledge that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City.

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

The City may appoint one or more Investment Advisors to assist the City's financial staff in the management of the City's funds. The Investment Advisor must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940 and with the State Securities Board. To be eligible for consideration, an Investment Advisor shall demonstrate knowledge of and experience in the management of public funds. The Investment Advisors qualifications will be checked by all appropriate means, including reference checks with the Advisor's other clients, the State Securities Board and the Securities and Exchange Commission. An appointed Investment Advisor shall act within the guidelines of this Investment Policy while transacting business on behalf of the City.

1. Appointment of an Investment Advisor shall otherwise be according to the City's normal purchasing procedures for selecting professional services. Appointment may not exceed a term of two years. A renewal or extension of the contract must be made by City Commission resolution.
2. The City may not purchase any securities from the Investment Advisor, or a parent or other affiliated company of the Investment Advisor.
3. The Investment Advisor is prohibited from making soft-dollar arrangements of any kind.
4. All contracted Investment Advisors shall report book value and market value of investment holdings, the total investment return, and such other information requested by the Director of Finance as often as requested by the Director.

Depository

~~The City will designate one banking institution through a competitive process as its central banking services provider at least every three years. This institution will be used for normal banking services including disbursements, deposits, lockbox, controlled disbursement and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit will also be designated after they provide their latest audited financial statements to the City.~~

At least every five (5) years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP).

The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

1. The ability to qualify as a depository for public funds in accordance with state and local laws.
2. The ability to provide requested information or financial statements for the period specified.
3. The ability to meet all requirements in the banking RFP.
4. Complete response to all required items on the bid form.
5. Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
6. The credit worthiness and financial stability of the bank.

The bank depository contract is subject to City Commission approval.

Competitive Bids

Investment transactions will normally be conducted based on comparison of a minimum of three (3) quotes obtained from any of the approved brokers with attention to yield as well as diversification with regard to issuing entity and broker/dealer. Limitations of time and supply may provide otherwise. Security transactions that may be purchased without competitive offers include: a) transactions with money market mutual funds; b) local government investment pools and c) new securities still in syndicate priced at par.

Delivery vs. Payment

All security transactions, including collateral for repurchase agreements *but excluding investment pool and mutual funds*, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis.

VII. SAFEKEEPING AND CUSTODY

~~The laws of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the City, and independent third party financial institution, or the City's designated depository.~~

~~The Investment Officer shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity,~~

~~cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.~~

~~All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third party bank domiciled in Texas. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.~~

~~**a. Delivery versus Payment**~~

~~All security transactions, including collateral for repurchase agreements *but excluding investment pool and mutual funds*, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis.~~

~~**b. Competitive Bidding**~~

~~All securities, including certificates of deposit, will be purchased or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.~~

Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

Safekeeping and Custody

Safekeeping and custody of securities and collateral shall be in accordance with state law. Securities and collateral will be held by a third party custodian designated by the Investment Officer and held in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Original safekeeping receipts shall be obtained.

Collateralization

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all investments and funds on deposit with a depository bank, other than investments, which are obligations of the U.S. Government, its agencies and instrumentalities, and government sponsored enterprises. 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 deposits or investments less than an amount insured by the FDIC.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

VIII. COLLATERALIZATION

~~The City requires that all insured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with requirements of State Law. Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination. Collateralization shall be required on two types of investments:~~

- ~~(1) Certificates of deposits over and above the FDIC insurance coverage. of \$100,000.~~
- ~~(2) Repurchase agreements.~~

~~In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest.~~

~~Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City of Texas City and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate.~~

VIII. INVESTMENT PARAMETERS

Diversification and Maturity Limitations

~~It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:~~

- ~~U.S. Treasuries and securities
with the U.S. Government's guarantee 100%~~
- ~~U.S. Government agencies
and instrumentalities not to exceed 50%~~
- ~~Fully insured or collateralized CDs 100%~~

~~State and Local Government Investment Poolsnot to exceed 50%~~

~~The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Remaining stated maturities in investments purchased should be no longer than five (5) years except as specifically authorized by the City Commission. Securities with maturities exceeding three (3) years shall not exceed 20% of the total portfolio.~~

Maximum Maturities

To the extent possible, the City of Texas City, will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. Additionally, the City will maintain a dollar-weighted average maturity of two (2) years or less.

Diversification

It is the intent of the City to diversify the investment instruments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending on the outlook for the economy and securities market. If conditions warrant, the guidelines below may be exceeded by approval of the Mayor.

- 1. U.S. Treasury Securities 100%
- 2. Agencies and Instrumentalities 75%
- 3. Certificates of Deposit 100%
- 4. Money Market Mutual Funds 30%
- 5. Repurchase Agreements 20%
- 6. Commercial Paper 20%
- 7. Authorized Pools 70%

Weighted Average Maturity (WAM)

~~The Public Funds Investment Act (PFIA) states for pooled fund groups, the maximum dollar-weighted average maturity (WAM) allowed based on the stated maturity date for the portfolio.~~

IX. REPORTING

~~Within 30 days of the end of each quarter, the Director shall prepare and submit to the City Commission a report, which, at a minimum, shall contain:~~

Not less than quarterly and within a reasonable time after the end of the period reported, the Investment Officer should prepare and submit to the City Commission a written report of the investment transactions for all funds of the City for the preceding reporting period. The report must:

~~A summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:~~

- ~~a. _____ Beginning market value for the reporting period.~~
- ~~b. _____ Additions and changes to the market value during the period.~~
- ~~c. _____ Ending market value for the period.~~
- ~~d. _____ Fully accrued interest for the reporting period.~~

1. Describe in detail the investment position of the City on the date of the report.
2. Contain a summary statement of each pooled fund group that states the beginning market value for the reporting period and additions and changes to the market value for the period.
3. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
4. State the maturity date of each separately invested asset that has a maturity date.
5. State the pooled group fund in the City for which each individual investment was acquired.

~~A statement of compliance of the investment portfolio of the City as it relates to the investment strategy expressed in this investment policy.~~

6. The quarterly report will be prepared jointly by all investment officers and be signed by all investment officers.

~~The quarterly report shall be in compliance with the Public Funds Investment Act (PFIA).~~

- ~~7. State all accrued interest payable.~~
- ~~8. State the compliance of the investment portfolio as it relates to this policy and the Public Funds Investment Act (PFIA).~~

~~The Director may use any generally accepted method to monitor the market price of investments, including, but not limited to, periodic reports from approved brokers/dealers or nationally recognized business publications that provide daily market valuations on individual securities.~~

~~The City's independent auditors will review the quarterly reports for the fiscal year and will report the result of that review to the City Commission along with their report on the audited financial statements.~~

Marking to Market

~~The market values of the City's investments shall be obtained from a reliable outside source, which has access to investment market values.~~

9. ANNUAL COMPLIANCE AUDIT

~~The Investment Officer shall establish a system of written internal controls which shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City. In conjunction with the City's annual financial audit, a compliance audit shall be performed of management controls on investments and adherence to the City's established investment policies.~~

X. PERFORMANCE STANDARDS

Performance Standards

~~The investment policy shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.~~

Performance Benchmark

~~The City of Texas City, Texas investment strategy is passive. Given this strategy, the benchmark to be used by the Investment Officer to determine whether market yields are being achieved shall be the average closing yield during the reporting period comparable to the portfolios dollar-weighted average maturity in days.~~

XI. POLICY CONSIDERATIONS- INVESTMENT POLICY ADOPTION

Exemptions

~~Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.~~

Annual Review and Adoption of Investment Policy

The City Commission shall adopt the City's investment policy. The Director of Finance and City Commission shall review the policy and investment strategies on an annual basis. The City Commission must approve any changes.