

City of Texas City, Texas
Investment Policy



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via City Commission Ordinance

**City of Texas City, Texas
Investment Policy
Table of Contents**

Investment Strategy	1
I. Policy	2
II. Scope	2
III. Investment Objectives	3
Safety	3
Liquidity	3
Yield	3
IV. Standards of Care	3
Delegation of Investment Authority.....	3
Standard of Ethics and Conflicts of Interest.....	4
Prudence	5
Cash Flow Forecasting.....	5
Internal Controls/Annual Compliance Audit	6
V. Suitable and Authorized Investments	6
Authorized	6
Not Authorized.....	7
VI. Financial Dealers and Institutions	7
Authorized Brokers/Dealers.....	7
Depository	9
Competitive Bids.....	9
Delivery vs. Payment.....	9
VII. Safekeeping and Custody	10
Safekeeping Agreement	10
Safekeeping and Custody	10
Collateralization	10
VIII. Investment Parameters	10
Maximum Maturities	10
Diversification	11
IX. Reporting	11
Marking to Market.....	12
X. Performance Standards	12
Performance Standards.....	12
Performance Benchmark	12
XI. Policy Adoption	12
Annual Review and Adoption of Investment Policy.....	12
Glossary	13
Attachment A -Broker/Dealer Questionnaire and Certification	24
Attachment B -TPFIA Certification by Dealer	30
Attachment C -Recommended Sponsors of Investment Training.....	31
Attachment D -Qualified Broker/Dealers	32
Attachment E -Ordinance -Approving City’s Investment Policy	33

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. 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

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:

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

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.

III. INVESTMENT OBJECTIVES

The City of Texas City shall manage and invest its cash with three (3) primary objectives, listed in order of priority: **safety, liquidity, and yield**. The safety of principal invested always remains the primary objective.

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.

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.

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.

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.

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

Delegation of Investment Authority (continued)

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 8 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.

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;

Standard of Ethics and Conflicts of Interest (continued)

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

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.

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.

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 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: 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. 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).
2. 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 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.
3. Repurchase Agreements with a defined termination date of 90 days or less collateralized by securities listed in 1 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.

Authorized (continued)

4. AAA-rated Investment Pools organized under the Texas Inter-local Cooperation Act that follow the requirements in the Public Funds Investment Act and which have been specifically approved by the City Commission.
5. Commercial Paper maturing within 180 days carrying a minimum rating of A-1, P-1 or F-1.
6. AAA-rated Money Market Mutual Funds registered with the Securities and Exchange Commission that invests 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).

VI. FINANCIAL DEALERS AND INSTITUTIONS

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.

Authorized Brokers/Dealers (continued)

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 principal 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.

Authorized Brokers/Dealers (continued)

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

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

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. INVESTMENT PARAMETERS

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%

IX. REPORTING

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:

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

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.

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 ADOPTION

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.

GLOSSARY

-A-

Accrued Interest – The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency – A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization – The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Asked – The price at which securities are offered.

Average Life – The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund features is expected to be outstanding.

-B-

Basis Point – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., “1/4” of 1 percent is equal to 25 basis points.

Bid – The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value – The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security’s current value in the market.

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.

-C-

Callable Bond – A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

-C- (continued)

Call Price – The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase – A transaction that calls for delivery and payment of securities on the same day the transaction is initiated.

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

Collateralization – Process by which a borrower pledges securities, property, or other deposits for the purposes of securing the repayment of a loan and/or security.

Commercial Paper – An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR) – The official annual report for the City of Texas City. It includes five combined 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.

Convexity – A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. It is also known as the interest rate.

Credit Quality – The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

-D-

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

Delivery Versus Payment (DVP) – A type of security transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivative Security – Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Discount Securities – Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

-F-

Fair Value – The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) – Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered immediately available funds.

Federal Funds Rate – Interest rate charged by one institution lending federal funds to the other.

-F- (continued)

Federal Credit Agencies – Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., 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 depository account.

Federal Home Loan Banks (FHLB) – The institutions that regulates and lend to savings and loans associations. The Federal Home Loan Banks play a role similar to that played by the Federal Reserve Banks versus member commercial banks.

Federal National Mortgage Association (FNMA) – 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 (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are 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., 12 regional banks and about 5,700 commercial banks that are members of the system.

Financial Industry Regulatory Authority (FINRA) – A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

-G-

Government Securities – An obligation of the U.S. Government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See “Treasury Bills, Notes, and Bonds”.

-I-

Interest Rate – See “Coupon Rate”.

Interest Rate Risk – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls – An internal control structure designated to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** – Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- **Separation of transaction authority from accounting and record keeping** – By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Custodial safekeeping** – Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Inverted Yield Curve – A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 – Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

-I- (continued)

Investment-grade Obligations – An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

-L-

Liquidity – A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

Local Government Investment Pool (LGIP) – An investment by local governments in which their money is pooled as a method for managing local funds.

-M-

Mark-to-Market – The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk – The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value – Current market price of a security.

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See “Weighted Average Maturity”.

Money Market – The market in which short-term debt instruments (bills, commercial paper, banker’s acceptances, etc.) are issued and traded.

Money Market Mutual Fund – Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury Bills, commercial paper, bankers’ acceptances, repos and federal funds).

Mutual Fund – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940.

-N-

Net Asset Value – The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets that includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below). $[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$

No Load Fund – A mutual fund that does not levy a sales charge on the purchase of its shares.

Nominal Yield – The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the “coupon”, “coupon rate”, or “interest rate”.

-O-

Offer – An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the “Ask price”.

-P-

Par – Face value or principal value of a bond, typically \$1,000 per bond.

Portfolio – Collection of securities held by an investor.

Positive Yield Curve – A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium – The amount by which the price paid for a security exceeds the security's par value.

Prime Rate – A preferred interest rate change charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus – A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain financial statements.

-P- (continued)

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public investors relating to investment practices.

-Q-

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

-R-

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 the current income return.

Reinvestment Risk – The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse repo) – An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act – Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

-S-

Safekeeping – Holding of assets (e.g., securities) by a financial institution.

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

-S- (continued)

Securities & Exchange Commission – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Serial Bond – A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund – Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap – Trading one asset for another.

-T-

Term Bond – Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return – The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three and six month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bonds – Marketable, fixed-interest U.S. government debt securities with maturities of more than ten years and issued in minimum denominations of \$1,000. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

Treasury Notes – Marketable, U.S. government debt securities with fixed interest rates and maturities between 1 to 10 years. Treasury notes can be bought either directly from the U.S. government or through banks.

-U-

Uniform Net Capital Rule – SEC Rule 15C3-1 – 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 owned to a firm, including margin loans and commitments to purchase securities. This is one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

-V-

Volatility – A degree of fluctuation in the price and valuation of securities.

Volatility Risk Rating – A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns (“aaa” by S&P; “V-1” by Fitch) to those that are highly sensitive with currently identifiable market volatility risk (“ccc” by S&P; “V-10” by Fitch).

-W-

Weighted Average Maturity (WAM) – The average maturity of all the securities that comprise a portfolio. According to the SEC Rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) – A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

-Y-

Yield – The current rate of return on an investment security generally expressed as a percentage of the security’s current price.

Yield-to-call (YTC) – The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve – A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

-Y- (continued)

Yield-to-maturity – The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

-Z-

Zero-coupon Securities – Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of gradual accretion of the principal of the security and is payable at par upon maturity.

ATTACHMENT A
CITY OF TEXAS CITY, TEXAS
BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

Name of Firm: _____

Address: _____

Telephone: _____

Fax: _____

Years Established: _____

Number of Employees: _____

PRIMARY REPRESENTATIVE/MANAGER/PARTNER-IN-CHARGE:

Primary Representative(s):

Name: _____

Name: _____

Title: _____

Title: _____

Telephone: _____

Telephone: _____

Fax: _____

Fax: _____

Email: _____

Email: _____

Manager/Partner-in-Charge:

Name: _____

Name: _____

Title: _____

Title: _____

Telephone: _____

Telephone: _____

Fax: _____

Fax: _____

Email: _____

Email: _____

Note: If a question does not apply to your organization, please place an "N/A" as your answer, so that it is not left blank.

1. Are you a primary dealer in U.S. Government Securities? Yes No

If yes, for how long has your firm been a primary dealer? Years

2. What was your firm's total volume in U.S. Government and Agency Securities last year?

Firm Wide \$
(Securities purchase and sold only)

Transactions

Local Office \$
(Including repurchase Agreements)

Transactions

3. Which instruments are offered regularly by your local desk?

- | | | |
|---|---|--|
| <input type="checkbox"/> T-Bills | <input type="checkbox"/> S and L CDs | <input type="checkbox"/> Instrumentality's |
| <input type="checkbox"/> Treasury | <input type="checkbox"/> BAs (Domestic) | <input type="checkbox"/> Commercial Paper |
| <input type="checkbox"/> Notes/Bonds | <input type="checkbox"/> BAs (Foreign) | <input type="checkbox"/> Other (Specify) |
| <input type="checkbox"/> Agencies (Specify) | <input type="checkbox"/> Bank CDs | |

4. Identify the personnel who will be trading with or quoting securities to our government's employees. (Please attach resumes for each person)

Name: _____

Name: _____

Title: _____

Title: _____

Telephone: _____

Telephone: _____

Fax: _____

Fax: _____

CRD Number: _____

CRD Number: _____

Number of Years with Firm: _____

Number of Years with Firm: _____

Email: _____

Email: _____

5. Have any or your clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument?

- Yes No

If yes, please explain below:

6. Has your firm or any of your employees ever been subject to a regulator or state/federal agency investigation for alleged improper, fraudulent, disputable or unfair activities related to the sale of securities?

Yes No

If yes, please explain below:

7. How many and what percentage of your transactions failed:

Last Month? %

Last Year? %

8. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

9. Will you provide a faxed and/or electronic copy of the trade ticket, no later than one business day after the trade is made?

Yes No

The following information needs to be included:

- a. Security Type and Cusip Number
- b. Issue Date, Maturity Date, Settlement Date, Trade Date, Call Date, Pay Date
- c. Risk Class, Risk Factor
- d. Rating
- e. Coupon Rate
- f. Par Value and Price

10. Does your firm consistently comply with the Federal Reserve Bank's capital adequacy guideline?

Yes No

By what factor (1.5x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines measure of risk?

INCLUDE certified documentation of your capital adequacy as measured by Federal Reserve standards.

11. Please provide audited financial statements for the most current year and other indicators regarding your firm's capitalization. Audited Financial Statements enclosed?

Yes No

12. Please provide the following: (Note: Do not answer with "see financial report" as that will be construed as an unanswered question.)

a. Debt/Equity

b. Assets (in Millions)

c. Net Capital (in Millions)

d. Volume of Security Transactions (in Millions)

e. Total Liabilities (in Millions)

f. Total Stockholders' Equity (in Millions)

13. Are you representing a parent corporation or a subsidiary of another corporation?

Yes No

If yes, please furnish audited financial statements on your parent corporation as well as your subsidiary. Audited financial statements enclosed?

Yes No

14. Describe the precautions taken by your firm to protect the interest of the public when dealing with government agencies as investors.

15. Provide a description of the Capital line and trading limits that support/limit the office that would conduct business with our government.

16. ATTACH a copy of your National Association of Securities Dealers Registration.

17. ATTACH a copy of your State of Texas Securities Commission Registration.

18. Do you participate in the Securities Investors Protection Corporation (S.I.P.C.)?

Yes No

If no, please explain below:

19. Enclose a complete schedule of fees and charges for various transactions. Schedule of fees and charges enclosed?

Yes No

20. Do you give perfected security interest in securities under repurchase agreements?

Yes No

21. Please identify (at least five for each trader you include in this questionnaire and certification) your most directly comparable public sector clients preferably in our geographical area.

Trader Name:

	Entity	Contact Person	Telephone	Client Since
1.				
2.				
3.				
4.				
5.				

Trader Name:

	Entity	Contact Person	Telephone	Client Since
1.				
2.				
3.				
4.				
5.				

Broker/Dealers are evaluated by the answers given on this questionnaire. Be sure to complete each question to your fullest ability and return the request by the due date in order for your company to be considered.

The City's Investment Policy has been included in the packet. The representative assigned to the account must acknowledge that they have received, read and understand the Policy by signing the Texas Public Funds Investment Act Certification by Dealer Form included in the packet.

Checklist:

- Certified documentation of your capital adequacy enclosed.
- Audited financial statement enclosed.
- Copy of your National Association of Securities Dealer Registration enclosed.
- Copy of your State of Texas Securities Commission Registration enclosed.
- Schedule of fees and charges enclosed.

ATTACHMENT B

**City of Texas City, Texas
Texas Public Funds Investment Act
Certification by Dealer**

This certification is executed on behalf of _____
(the Investor) and _____(the Dealer) pursuant
to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes
Annotated (the Act) in connection with investment transactions conducted between the
Investor and Dealer.

The undersigned Qualified Representative of the Dealer hereby certifies on behalf of the
Dealer that:

1. The Dealer Qualified Representative is duly authorized to execute this Certification
on behalf of the Dealer, and
2. The Dealer Qualified Representative has received and reviewed the Investment Policy
furnished by the Investor, and
3. The Dealer has implemented reasonable procedures and controls in an effort to
preclude investment transactions conducted between the Dealer and the Investor
that are not authorized by the entity's investment policy, except to the extent that this
authorization is dependent on an analysis of the makeup of the entity's entire
portfolio or requires an interpretation of subjective investment standards.

Dealer Qualified Representative

Signature

Name (Printed)

Title

Date

Attachment C

RECOMMENDED SPONSORS OF INVESTMENT TRAINING

- Government Finance Officers Association of Texas (GFOAT)
- Government Treasurers Association of Texas (GTOT)
- Texas Municipal League (TML)
- University of North Texas (UNT)
- State of Texas

ATTACHMENT D
CITY OF TEXAS CITY, TEXAS
QUALIFIED BROKERS/DEALERS

Hilltop Securities
A Hilltop Holdings Company
3 Riverway, Suite 1400
Houston, TX 77056
Phone: 832-681-4601
Stuart Ford
Erle Hoppe

Merrill Lynch
2100 Ross Avenue, Suite 1100
Dallas, Texas 75201
Phone: 800-574-1610

Wells Fargo Advisors
2700 Post Oak Blvd., Ste. 800
Houston, Texas 77056
Phone: 713-599-6700

SWBC Investment Services, LLC
15106 Cranbourne
Houston, Texas 77062
Phone: 281-851-6508
Paul Grover