City of Fulshear

FY 2018-2019 Investment Policy

PREFACE

It is the policy of the City of Fulshear (the "City") that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for City funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted Investment Policy. The City will invest public funds in a manner which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the City.

The City is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written Investment Policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

CITY OF FULSHEAR INVESTMENT POLICY

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1. **PURPOSE.** The purpose of this investment policy (the "Policy") is to set forth specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, achieving a market rate of return and maintaining public trust for all investment activities. The City Council of the City shall review the investment strategy and policy at least annually, and the City Council shall annually approve the Investment Policy revisions, if any, by formal resolution.

2. **INVESTMENT STRATEGY.** The City maintains a comprehensive and proactive cash management program that is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate of return. The basic and underlying strategy of this program is that all of the City's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the investment officers. The allowable investment instruments as defined in Section 6 of this Policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require.

2.1. **The primary investment strategy and objectives** of the City as specified in this Policy (See Section 4.) are listed below, in their order of importance:

Safety and preservation of principal;
Maintenance of sufficient liquidity to meet operating needs;
Achieve a market rate of return on the investment portfolio; and
Seek at all times to maintain public trust by adhering to the above stated objectives.

2.2. **The list of investments authorized** by this Policy intentionally excludes some investments allowed by state law. The restrictions limit possible credit risk and provide the maximum measure of safety. Within the investment objectives, the investment strategy is to utilize authorized investments for maximum advantage to the City. To increase the interest earnings for funds identified as being available for investment over longer periods of time, based upon a cash requirement projection, the City will consider the following strategies:

2.2.1. **Strategy No. 1.** Diversifying the City's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is an entity created to invest public funds jointly on behalf of its participants and whose investment objectives in order of priority match those objectives of the City. Funds are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. The strategy of the City calls for the use of investment pools as a primary source of diversification and supplemental source of liquidity. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

2.2.2. **Strategy No. 2.** Building a ladder of Investment Policy authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

It is straight-forward and easily understood;

It represents a prudent diversification method;
All investments remain within the approved maturity horizon;
It will normally allow the City to capture a reasonable portion of the yield curve; and
It provides predictable cash flow with scheduled maturities and reinvestment opportunities

2.2.3. **Strategy No. 3.** Pursuant to the Public Funds Investment Act (Texas Government Code 2256.003), the City may, at its discretion, contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) and with the State Securities Board to provide for investment and non- discretionary management of its public funds or other funds under its control.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy. At no time shall the advisor take possession of securities or funds or otherwise be granted discretionary authority to transact business on behalf of the City. Any contract awarded by the City Council for investment advisory services may not exceed two years, with an option to extend by mutual consent of both parties.

Duties of the Investment Advisor contracted by the City shall abide by the Prudent Expert Rule, whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

2.2.4. **Strategy No. 4.** The City will maintain portfolio(s) which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund group(s) represented in the portfolio(s):

2.2.4.1. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio that will experience minimal volatility during economic cycles through diversification by security type, maturity date and issuer. All security types, as authorized by this policy, are considered suitable investments for the operating and pooled funds.

2.2.4.2. 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(s). These funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements.

2.2.4.3. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund. Managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the City's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue.

2.2.4.4. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Market conditions and arbitrage regulations will influence the investment of capital

project funds. When market conditions allow, achieving a positive spread to applicable arbitrage yield is the desired objective, although at no time shall the anticipated expenditure schedule be exceeded in an attempt to increase yield.

2.2.5 **Strategy No. 5. Hold until Maturity** The strategy of the City is to maintain sufficient liquidity in its portfolio so that it does not need to sell a security prior to maturity. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the City Council must be obtained. Securities may be sold prior to maturity by the Investment Officer at or above their book value at any time.

2.2.6. **Strategy No. 6**. Pooling of Deposits and Investments. All demand deposits of the City will be concentrated with one central depository. This procedure will maximize the City's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the City may be eligible to bid or submit proposals on City investments.

2.2.7. **Strategy No. 7**. Depository Bank Relationships. This Policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the City, while allowing the City to earn an appropriate return on idle demand deposits.

2.2.8. **Strategy No. 8**. Single Pooled Fund Group. A single strategy is specified, in accordance with the single pooled fund group as defined in this Policy. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the City.

2.2.9. **Strategy No. 9**. Maximizing Investible Cash Balances. Procedures shall be established and implemented in order to maximize investible cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

3. **SCOPE.** The Investment Policy shall govern the investment of all financial assets considered to be part of the City and includes the following funds or fund types: General Fund, Utility Fund, Debt Service Fund, Capital Projects Fund, Special Revenue Funds, and any other funds which have been contractually delegated to the City for management purposes. The City may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the City by outside agencies under retirement or deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds.

4. **INVESTMENT OBJECTIVES.** Funds of the City shall be invested in accordance with all applicable Texas statutes, this Policy and any other approved, written administrative procedures. The four objectives of the City's investment activities shall be as follows (in the order of priority):

4.1. **Safety of Principal.** Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City's investments. All investment officers shall understand the suitability of investment to the financial requirements of the City.

4.2. **Liquidity**. The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as will provide the liquidity necessary to pay obligations as they become due. A portion of the portfolio also may be placed in money market mutual funds or local

government investment pools which offer same-day liquidity for short-term funds. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements, or to otherwise favorably adjust the City's portfolio, in accordance with Section 2.2.5 above.

4.3. **Market Rate-of-Return (Yield).** The City's investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate of return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above market rate-of return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the rate of annual income return on an investment, expressed as a percentage.

4.4. **Public Trust.** All participants in the City's investment program shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might involve a conflict of interest or otherwise impair public confidence in the City's ability to govern effectively. All officials of the City having either a direct or indirect role in the process of investing idle funds shall act responsibly as custodians of the public trust.

5. **INVESTMENT RESPONSIBILITY.** As provided in this policy, the daily operation and management of the City's investments are the responsibility of the following persons.

5.1. **Delegation of Authority.** The Chief Financial Officer authorized to deposit, withdraw, invest, transfer or manage in any other manner the funds of the City. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer, who shall establish written procedures for the operation of the investment program, consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. All persons involved in investment activities will be referred to in this Policy as "Investment Officials." No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Chief Financial Officer. The Chief Financial Officer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate Investment Officials. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. 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.

The Chief Financial Officer shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Chief Financial Officer may designate other finance personnel as an Investment Officers as needed. Commitment of financial and staffing resources in order to maximize total return through active portfolio management shall be the responsibility of the City Council.

5.2. **Prudence.** The standard of prudence to be applied by the Investment Officer shall be the "prudent person" rule, which requires that each investment be judged on its own merits. All investments shall be made in a prudent manner. In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

5.2.1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and

5.2.2. Whether the investment decision was consistent with the written investment Policy and procedures of the City.

5.3. **Due Diligence.** The Investment Officer acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments. All Investment Officials involved in investment transactions will be bonded.

5.4 **Ethical Standards and Conflicts of Interest.** All City Investment Officials having a direct or indirect role in the investment of City funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

5.5. **Training.** The investment officers shall attend at least one ten-hour training session relating to the officer's responsibility under the Public Funds Investment Act within twelve (12) months after assuming duties, and attend an investment training session not less than once every two years, receiving an additional ten (10) hours of training. Either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, the University of North Texas Center for Public Management or the North Central Texas Council of Governments shall endorse such training.

6. **AUTHORIZED INVESTMENTS.** -Investments described below are authorized by the Public Funds Investment Act. Section 6.2 of this policy describes those investments that are specifically prohibited by the Act. In addition, the purchase of specific investments may at times be restricted or prohibited by the Chief Financial Officer, as the investment officer, due to current market conditions. Securities that were authorized investments at the time of purchase are not required to be liquidated. Except as provide above, City funds governed by this Policy may be invested in:

6.1.1 Obligations of the United States of America or its agencies and instrumentalities.

6.1.2 Direct Obligations of the State of Texas or its agencies and instrumentalities.

6.1.3 Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.

6.1.4 Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; and

6.1.5 Certificates of Deposit that are issued by a City Council-approved state, national, or savings bank, and are:

a) Guaranteed or insured by the FDIC, or its successor; or
b) Secured by obligations that are described by 6.1 above, which have a market value of not less than the principal amount of the certificates, but excluding those securities prohibited by the Public Funds Investment Act and this policy; or
c) Secured in any other manner and amount provided by law for deposits of the City.

Certificates of Deposit may be transacted with approved public depositories provided the City has on file a Signed Security Agreement that complies with the Public Funds Collateral Act and details:

a) Eligible collateral;
b) Collateralization ratios for the various types of eligible collateral;
c) Standards for collateral custody and control;
d) Collateral valuation; and
e) Conditions for agreement termination.

6.1.6. Eligible Local Government Investment Pools. Public funds investment pools which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code, provided that:

- the investment pool has been authorized by the City Council;
- the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
- the pool shall furnish the Investment Officer investment transaction confirmations with respect to all investments made with it;
- the pool shall furnish to the Investment Officer monthly reports containing the information required under Section 2256.016(c) of the Texas Government Code;
- the pool is continuously rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least one nationally recognized rating service;
- the pool marks its portfolio to market daily;
- the pool's investment objectives shall be to maintain a stable net asset value of one dollar ($1.00); and
- the pool's investment philosophy and strategy are consistent with this Policy.

6.1.7. Repurchase Agreements, Reverse Repurchase Agreements, Bankers' Acceptances, and Commercial Paper. These investments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests. Only fully collateralized direct repurchase agreements with the City's Bank Depository are authorized City investments. All City repurchase agreement transactions shall be governed by a signed master repurchase agreement. Repurchase agreements must also be secured in accordance with State law as described in Section 10.

6.1.8. Regulated No-Load Money Market Mutual Funds. These investments are authorized, under the following conditions:

- the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
- the fund provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of1940;
- the fund has a dollar-weighted average portfolio maturity of ninety (90)days or less;
- the investment objectives include the maintenance of a stable net asset value of one dollar ($1.00) per

share; and

- the fund is continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service.

6.1.9. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, subject to the provisions of Section 6.

The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund and all prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum designated rating.

6.2. PROHIBITED INVESTMENTS -- Under the Public Funds Investment Act, the following are not authorized investments, regardless of any other law to the contrary:

6.2.1. Obligations whose payment represents the coupon payment on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal. (Commonly referred to as IOs)

6.2.2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest. (Commonly referred to as Pos)

6.2.3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

6.2.4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

The practice of "leveraging" whereby funds are borrowed for the sole purpose of investing shall not be practiced.

7 **DIVERSIFICATION.** Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this Policy, and authorized local government investment pools, no more than fifty percent (50%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.

7.1. **Diversification by Maturities**. The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The 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 two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The City shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.
The entire City portfolio including funds at the City's depository bank, shall comprise one pooled fund group, and the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio is three hundred sixty five(365) days.

7.2. **Diversification by Investment Instrument.** Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

Percentage of Portfolio (Maximum)
Treasury Obligations 100%
Government Agency Securities and Instrumentalities of 80%
Government-Sponsored Corporations
Authorized Local Government Investment Pool (per Pool) 100%
Fully Collateralized Certificates of Deposit 50%
Fully Collateralized Repurchase Agreements 50%
SEC-Regulated No-Load Money Market Mutual Fund (per Fund) 20%

8. **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.** Financial institutions (federally insured banks) with and through whom the City invests shall be state or national banks that have their main office or a branch office in this state. No public deposit shall be made except in a qualified public depository as established by state laws. Broker/dealers authorized to provide investment services to the City may include only those authorized by the City Council. All banking services will be governed by a depository contract awarded by the City Council. In addition, the Chief Financial Officer shall maintain a list of authorized security brokers/dealers, and investment pools that are authorized by the City Council.

8.1. All financial institutions with whom the City does business must supply the following as appropriate: (1) audited financial statements; (2) proof of National Association of Securities Dealers (NASD) certification; (3) proof of state registration; (4) completed broker/dealer questionnaire; (5) certification of having read the City's investment policy signed by a qualified representative of the organization, acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

8.2. **Annual review of Responder's Financial Conditions.** An annual review of the financial condition and registration of qualified responders will be conducted by the Chief Financial Officer. The review may include, but is not limited to, review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and brokers/dealers desiring to conduct business with the City shall be required to provide any financial data requested by the Investment Officer. Upon completion of the annual review by the Chief Financial Officer, the financial institutions and brokers/dealers desiring to conduct business with the City shall be approved by the City Council.

8.3. **Selection Criteria** for federally insured financial institutions shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the financial institution must be located within the corporate boundaries of the City.

8.4. **Monitoring Investments.** The Investment Officer of the City is responsible for monitoring the investments made by a financial institution and/or broker/dealer to determine that they are in compliance with the provisions of the Investment Policy.

9. **DELIVERY VERSUS PAYMENT.** It is the policy of the City that all security transactions except CD's, investment pools, tri-party repurchase agreements and mutual funds entered into with the City shall be conducted on a **"DELIVERY VERSUS PAYMENT"** (DVP) basis through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of

funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the City. The notification may be oral, but shall be confirmed in writing.

10. SAFEKEEPING AND COLLATERALIZATION.

10.1. **Safekeeping.** All securities owned by the City shall be held by its safekeeping agent, except the collateral for bank deposits. The collateral for bank deposits will be held in the City's name in the bank's trust department, or alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank, at the City's discretion. Original safekeeping receipts shall be obtained and held by the City. 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 time deposits.

10.2. **Collateralization.**
All deposits of City funds, repurchase agreements and securities lending agreements, including any accrued interest, will be fully collateralized by securities permitted under this policy. Collateral securities shall have a market value of not less than 102% of the amount of the deposits, secured thereby, adjusted by the insurance coverage provided those deposits by the Federal Deposit Insurance Corporation. 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 or trust receipt) must be supplied to the City and retained. Determination of market value on collateral shall be made on a weekly basis. All collateral relationships will comply with the terms of the Public Funds Collateral Act.

10.2.2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market or par, whichever is lower. The market value of collateral will always equal or exceed the principal plus accrued interest of deposits at financial institutions.

10.2.3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard& Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

10.2.4. Collateralized Deposits. Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
- the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors of the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- the Agreement must be part of the Depository's "official record" continuously since its execution.

10.2.5. Depository. Not less than every five years, a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal and consistent with state law. In selecting depositories, the service cost and creditworthiness of institutions shall be considered, and the Treasurer shall conduct a comprehensive review of prospective depository's credit characteristics and financial history. All banks will execute a depository agreement covering collateral issues for sale of time deposits if not covered by the competitively bid bank services agreement.

11. **INTERNAL CONTROL.** The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this Policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the City's established investment policy.

12. **REPORTING.** The investment officer shall prepare and submit a quarterly investment report to City Council of all investment transactions for all funds covered for the preceding reporting period. This report will describe the investment position of the entity on the date of the report. It will also include a summary statement prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the beginning market value, additions and changes to market value, ending market value and fully accrued interest for the reporting period and comply with the rules of Section 2256.023 of the Local Government Code.

12.1. **Annual Report.** Within ninety (90) days of the end of the fiscal year, the Chief Financial Officer shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Mayor and City Council. The reports prepared by the Chief Financial Officer shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Mayor and City Council by that auditor.

12.2. **Methods.** The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:

12.2.1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;

12.2.2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;

12.2.3. Additions and changes to the market value during the period;

12.2.4. Fully accrued interest for the reporting period;

12.2.5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;

12.2.6. Listing of investments by maturity date;

12.2.7. The percentage of the total portfolio which each type of investment represents;

12.2.8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.

13. **INVESTMENT POLICY ADOPTION AND AMENDMENT.** The City's Investment Policy shall be adopted and amended by resolution of the City Council only. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. Any changes or modifications to this Investment Policy, if any, shall be approved by the City Council, and shall be adopted by a formal resolution of the City Council.

Attachment A

INVESTMENT POLICY GLOSSARY OF TERMS

The Investment Policy contains specialized and technical terminology that is unique to cash management and investment activities. The following glossary of terms is provided to assist in understanding these terms.

Affinity. Related through marriage.

Agencies. See United States Agency Securities.

Bankers' Acceptances. A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. When discounted and sold in the secondary market, bankers' acceptances become a short-term investment alternative.

Book Value. The cost of a security as recorded in the accounting records. For purposes of evaluating a sale of a security, it is a function of the original cost, the amortization of premium or discount, and the accrued interest. Specifically, it is the face value of the security, plus the accrued interest, plus any unamortized premium (or minus any unamortized discount). Book value is often compared to market value, which is defined below.

Broker. A person or company that, for a fee or commission, brings buyers and sellers of securities together.

Certificate of Deposit. A time deposit with a specific maturity evidenced by a certificate.

Collateral. In general, assets which one party pledges as a guarantee of performance. Specifically, securities pledged by a bank to secure deposits of public monies. In the event of bank failure, the securities become the property of the public entity.

Collateralized Mortgage Obligations (CMO's). Securities based on a pool of home mortgages.

Commercial Paper. An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most frequently maturities do not exceed 30 days. Almost all commercial paper is rated by a rating service.

Consanguinity. Related by blood.

Coupon. The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. Also, a certificate attached to a bond indicating interest due on a payment date.

Credit Risk. The uncertainty that the principal amount of an investment will be returned without loss of value to the default of the borrower.

CUSIP. A unique security identification number assigned to securities maintained and transferred on the Federal Reserve book-entry system.

Dealer. A person or company that endeavors to profit from buying and selling investments for its own account.

Delivery Versus Payment (DVP). A method of delivering securities that requires the simultaneous exchange of the security and the payment. It provides a safeguard against paying for securities before they are received.

Demand Deposits. Deposits at a financial institution that are available to the depositor upon the depositor's demand.

Depository Bank. The primary bank. The relationship with the depository bank is governed by state law and by a depository contract.

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

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

Diversification. The strategy of dividing investments among a variety of securities offering independent risks and yields. Diversification lessens the likelihood of losing the entire portfolio of investments and averages yields among the investment alternatives.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits.

Federal Funds Rate. The rate of interest at which Federal funds are traded This rate is currently set by the Federal Reserve through open-market operations.

Federal Home Loan Banks (F1-1LB). Created in 1932, this system consists of **12** regional banks, which are owned by private member institutions and regulated by the Federal Housing Finance Board. Functioning as a credit reserve system, it facilitates extension of credit through its owner members. Federal Home Loan Bank issues are joint and several obligations of the 12 Federal Home Loan Banks.

Federal Homes Loan Mortgage Corporate (FHLMC or Freddie Mac). A stockholder-owned corporation that provides a continuous flow of funds to mortgage lenders, primarily through developing and maintaining an active nationwide market in conventional mortgages.

Federal National Mortgage Association (FNMA or Fannie Mae). FNMA, a federal corporation, is the largest single provider of residential mortgage funds in the United States. It 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.

Hold Until Maturity. This investment strategy is intended to avoid interest rate risk by maintaining ownership of an investment until it matures. At maturity, the face value of the security is received, but in some cases where a security is sold before maturity, less than the face value and the book value is received. Please see Interest Rate Risk defined below.

Interest Rate Risk. The uncertainty of the return of principal on fixed rate securities that are sold prior to maturity. When interest rates rise, the market value of fixed rate securities decreases.

Internal Control. Policies and procedures that are established to provide reasonable assurance that specific government objectives are achieved and that assets are safeguarded.

Investment. The purchase of securities which, upon analysis, promise safety of principal and a satisfactory return. These factors distinguish investment from speculation.

Investment Objective. The aim, goal or desired end of action of the investment activity.

Investment Pool. An entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. (Sometimes called Local Government Investment Pool.)

Investment Strategy. The overall plan or method proscribed to achieve the investment objectives.

Laddered Maturity. An investment strategy whereby investments are purchased to mature at regular intervals.

Liquidity. The measure of an investment's ability to be converted quickly and easily into cash without a substantial loss of value.

Local Government Investment Pool. See **Investment Pool.**

Market Rate of Return. A general term referring to the approximate interest rate that could be earned by an investor in a specific maturity range at any given point in time. For example, an investor seeking to earn a market rate of return while maintaining an investment portfolio with an average maturity of 90 days would hope to earn approximately the same as a three-month agency discount note. If the investor earns a rate much higher than this, it might signal an inappropriate level of risk.

Market Risk. The uncertainty of the value of a financial portfolio arising from changes in the market conditions of investment securities.

Market Value. The price, including accrued interest, at which a security is trading for which it can be readily sold or purchased.

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

Money Market Mutual Fund. A mutual fund that purchases short-term debt instruments, such as Treasury Bills, commercial paper, and bankers' acceptances, and which strives to maintain a stable net asset value of $1.00.

Mutual Fund. Investment companies that sell shares to investors, offering investors diversification and professional portfolio management. Prices generally fluctuate with the performance of the fund.

Net Asset Value. The ratio of the market value of the portfolio divided by the book value of the portfolio.

Par. The value of a security as expressed on its face (face value) without consideration of a discount or premium.

Pledge. The grant of a collateral interest in investment securities by the depository bank as assurance of the safety of deposits.

Pooled Fund Group. The combination of various accounts and funds in a single, internally-created investing entity.

Portfolio. The collection of securities held by an investor.

Principal. The capital sum of an investment, as distinguished from interest.

Premium. The difference between the cost price and the face value at maturity in cases where the cost price is higher than the face value.

Rate-of-Return. See Yield.

Repurchase Agreement (REPO). An investment arrangement in which the holder of a security sells that security to an investor with an agreement to repurchase the security at a fixed price and on a fixed date.

Reverse Repurchase Agreement. An investment arrangement by which a security is sold to a third party, such as a bank or broker/dealer, in return for cash with the agreement to repurchase the instrument from the third party at a fixed price and on a fixed date. The cash is then used to purchase additional investments. This type of investment is prohibited in the portfolio, except to the extent used by local government investment pools as authorized in the Policy.

Safekeeping. An arrangement whereby a bank holds securities and other valuables for protection in exchange for a fee.

Safety. The assurance of the undiminished return of the principal of investments and deposits.

Secondary Market. A market for the purchase and sales of outstanding securities following their initial distribution.

SEC Rule 15C3-1 (Uniform Net Capital Rule). Security and Exchange Commission requirement that member firms and nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1.

Security. A financial instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

Security Risks. The uncertainty of the value of a security dependent on its particular qualities.

Time Deposits. Deposits at the depository bank that are not due and payable until a specific date.

United States Agency Securities. Debt instruments issued by an executive department, an independent federal establishment, or a corporation or other entity established by Congress which is owned in whole or in part by the United States of America.

United States Treasury Securities. Debt instruments issued by the Treasury of the United States. **Treasury Bills** are issued for short-term borrowings (less than one year); **Treasury Notes** are issued for mid-term borrowings (two - ten years); **Treasury Bonds** are issued for long-term borrowings (over ten years).

Yield. The rate of annual return on an investment, expressed as a percentage.

Attachment B

CITY OF FULSHEAR

BROKER/DEALER QUESTIONANAIRE AND CERTIFICATION

A. INSTRUCTIONS

In order for a firm to be considered or remain as a Broker/Dealer for the City of Fulshear, please follow the instructions listed below.

1. Complete each section of the questionnaire.
2. Do not leave any questions unanswered. If the question does not apply, please mark it as N/A.
3. Return questionnaire by required date.
4. Provide all requested information
5. All primary representatives must read the City's Investment Policy and sign the acknowledgement at the end of the questionnaire. The Investment Policy is located on the City's Website at: www.fulsheartexas.gov
6. A Dealer Qualified Representative must sign the Texas Public Funds Investment Act Certification.
7. Submit the questionnaire and all required information to:

   Wes Vela, Chief Financial Officer
   City of Fulshear
   PO Box 279
   Fulshear, Texas 77441

8. Contact Wes Vela at wvela@fulsheartexas.gov or 281.346.8805 if you have any questions.

B. EVALUATION

Broker/Dealers are evaluated based on the answers given on this questionnaire. Responses will be evaluated based on the following criteria:

25% Financial and technical ability of the firm to perform as a broker/dealer for the City, including City staff's evaluation of the firm's performance based on any previous work experience with the City of Fulshear.

25% Qualifications and experience of the key personnel assigned to work with the City particularly as it relates to their experience with similar public sector clients in Texas and their familiarity with the Texas Public Funds Investment Act via education through or participation in local government organizations in the State.

25% Thoroughness of the response as it relates to providing broker/dealer services relevant to the City.

25% References

Once the completed questionnaire is reviewed, a notification letter will be mailed to your firm.

C. BASIC INFORMATION

Name of Firm: _____

Firm CRD Number: _____

National Address: _____

City: _____ State: _____ Zip: _____

Telephone: _____ Fax: _____

Years Established: _____Number of Employees: _____

PRIMARY REPRESENTATIVE/MANAGER/PARTNER - IN – CHARGE

Primary Representative(s)

Name: _____ Title: _____

Local Address: _____
City: _____ State: _____ Zip: _____
Telephone: _____ Fax:_____

Email Address: _____

CDR#:_____ Years with Firm: _____

Will this person be trading with or quoting security offers to the City? Y / N
Has this person read the City's Investment Policy? Y / N

Name: _____ Title: _____

Local Address: _____
City: _____ State: _____ Zip: _____
Telephone: _____ Fax:_____

Email Address: _____

CDR#:_____ Years with Firm: _____

Will this person be trading with or quoting security offers to the City? Y / N

Has this person read the City's Investment Policy? Y / N

Manager/Parter-in-Charge

Name: _____ Title: _____

Local Address: _____

City: _____ State: _____ Zip: _____

Telephone: _____ Fax: _____

Email Address: _____

CDR#: _____ Years with Firm: _____

Will this person be trading with or quoting security offers to the City? Y / N

Has this person read the City's Investment Policy? Y / N

Please attach a resume for all individuals listed above.

D. SPECIFIC QUESTIONS

1. Is the firm a primary dealer in U.S. Government Securities? Y / N
   If yes, how long has the firm been a primary dealer? _____

2. What was the Firm's total volume in U.S. Government and Agency Securities last year?
   Dollar Amount: _____ Number of Transactions: _____

3. Which instruments are offered regularly by the firm's local desk?
   ☐T-Bills ☐Treasury ☐Notes/Bonds ☐Instrumentality ☐Commercial Paper
   ☐Bank CDs ☐S and L CDs
   ☐ Agencies (Specify) _____ ☐Other (Specify) _____
   _____ _____
   _____ _____

4. Have any of the firm's public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? Y / N
   If yes, please explain:

5. In the past five years, has the firm or any of the employees ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disputable or unfair activities related to the sale of government securities or money market instruments? Y / N
   If yes, please explain:

6. Has the firm ever been temporarily closed or prohibited from trading due to net capital? Y / N
   If yes, please explain:

7. The City of Fulshear's Investment Policy requires the use of delivery versus payment. Describe the firm's normal process, including a description of reports, transaction, confirmation schedules, timing, safekeeping arrangements and auditing procedures.

Please attach the firm's Delivery Instructions.

8. Will the firm provide a faxed or electronic copy of the trade ticket, no later than one business day after the trade is executed? Y / N
   The following information must 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
9. How many and what percentage of the firms transactions failed:
   Last Month? _____ _____%
   Last Year? _____ _____%

E. FINANCIAL INFORMATION

1. Have there been any changes in the firm's ownership in the past two years? Y / N
   If yes, please explain:

2. Has the firm received any federal aid (stimulus funds) in the past two years? Y / N
   If yes, please explain:

3. Does the firm consistently comply with the Federal Reserve Bank's capital adequacy guideline? Y / N
   Include certified documentation of your capital adequacy as measured by the Federal Reserve Standards

4. Please provide **audited** financial statements for the most current year and other indicators regarding the firm's capitalization. Please do not use a website address to answer this question.

5. Please provide the following information for the most **current quarter** reports:
   a. Debt/Equity (in percent) _____%
   b. Assets (in Millions) _____
   c. Net Capital (in Millions) _____
   d. Vol. of Security Transactions (in Millions) _____
   e. Total Liabilities (in Millions) _____
   f. Total Stockholders' Equity (in Millions) _____

F. GENERAL INFORMATION AND QUESTIONS

1. What training would you offer to our employees and Investment Officers?

2. Describe the level of involvement the firm has with local government organizations in Texas such as GFOAT and GTOT (e.g. participation as a speaker, or attendee). Also indicate the number of years the firm has been involved with these or other local government organizations of Texas.

3. Attach a copy of the Financial Industry Regulatory Authority (FIRA) Broker Check Report for each local representative listed and a copy of the FIRA summary report for the firm.

4. Attach a copy of the firm's State of Texas Securities Commission Registration.

5. Does the firm participate in the Securities Investors Protection Corporation (S.I.P.C)? Y / N
   If not, explain:

6. Enclose a complete schedule of fees and charges for various transactions.

G. REFERENCES

Please identify (at least five for each trader included on this questionnaire and certification) their 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.			

H. CHECKLIST

Resume for all primary representatives and manager/partner-in-charge enclosed.
Delivery Instructions enclosed.
Certified documentation of your capital adequacy enclosed.
Audited financial statement enclosed.
Current quarter financial statement enclosed.
Copy of the Firm's FIRA Summary sheet enclosed.
Copy of the FIRA Broker Check Report for each representative listed enclosed.
Copy of the firm's State of Texas Securities Commission Registration enclosed.
Delivery Instructions enclosed.
Schedule of fees and charges enclosed.

Attachment C

CITY OF FULSHEAR, TEXAS INVESTMENT POLICY

TEXAS PUBLIC FUNDS INVESTMENT ACT CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Fulshear, Texas (the "City/Investor") and _____(the "Business Organization/Dealer"), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.
The undersigned Qualified Representative of the Business Organization/Dealer hereby certifies on behalf of the Business Organization/Dealer that:
1. The undersigned is a Qualified Representative of the Business Organization/Dealer offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and

2. The Qualified Representative of the Business Organization/Dealer has received and reviewed the Investment Policy furnished by the City; and

3. The Qualified Representative of the Business Organization/Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization/Dealer and the City that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization/Dealer:

Firm: _____

Signature: _____

Printed Name: _____

Title: _____

Date: _____

Attachment D

CITY OF FULSHEAR INVESTMENT POLICY ACKNOWLEDGEMENT

_____	_____
SIGNATURE	PRINTED NAME & TITLE
_____	_____
SIGNATURE	PRINTED NAME & TITLE
_____	_____
SIGNATURE	PRINTED NAME & TITLE

Approval By City Council

Date: 11/20/2018

Mayor: _____ Date: 11-20-2018

City Secretary: _____ Date: 11-20-2018