# CITY OF EL PASO, TEXAS
# AGENDA ITEM DEPARTMENT HEAD'S SUMMARY FORM

**DEPARTMENT:** **Financial Services**

**AGENDA DATE:** **10/14/08**

**CONTACT PERSON/PHONE:** **Carmen Arrieta-Candelaria/541-4293**

**DISTRICT(S) AFFECTED:** **Citywide**

**SUBJECT:**

Adoption of Resolution and Investment Policy for the City of El Paso.

**BACKGROUND / DISCUSSION:**
**Discussion of the what, why, where, when, and how to enable Council to have reasonably complete description of the contemplated action. This should include attachment of bid tabulation, or ordinance or resolution if appropriate. What are the benefits to the City of this action? What are the citizen concerns?**

Pursuant to Section 2256 of the Texas Government Code, otherwise known as the Texas Public Funds Investment Act (TPFIA), the City is required to review its investment policy on an annual basis and recommend any changes to such. The City has reviewed the policy and recommended changes to the policy. Changes to the policy include: 1) Adding additional language to Section 4.4 Delegation of Authority to reflect the Treasury Services Coordinator's role and responsibilities with respect to day-to-day activities and restricting any other officer or designee from engaging in investment or banking activities; 2) adding Section 9.3 regarding the Effect of Loss of Required Rating to comply with Section 2256.021 of the TPFIA and address recent market activity; and 3) Adding language to the Strategy for Allocation Interest to Participating Funds (Appendix 1 to Exhibit A) to identify the Regional Mobility Authority Fund as being eligible to earn interest (this is a new agency fund in 2008 in which the City acts as the fiscal agent for the RMA).

**PRIOR COUNCIL ACTION**
**Has the Council previously considered this item or a closely related one?**

Council adopted a resolution and Investment Policy on October 15, 2007. This policy would remain in effect until the revised policy is approved by Council.

**AMOUNT AND SOURCE OF FUNDING:**
**How will this item be funded? Has the item been budgeted? If so, identify funding source by account numbers and description of account. Does it require a budget transfer?**

There is no direct cost associated with this action..

**BOARD / COMMISSION ACTION:**
**Enter appropriate comments or N/A**

N/A

**********REQUIRED AUTHORIZATION**********

**LEGAL:** (if required) _____ **FINANCE:** (if required) _____

**DEPARTMENT HEAD:** Carmen Arrieta Candelaria

**(Example: if RCA is initiated by Purchasing, client department should sign also)**
***Information copy to appropriate Deputy City Manager***

**APPROVED FOR AGENDA:**

**CITY MANAGER:** _____ **DATE:** _____

# RESOLUTION

**WHEREAS,** on September 26, 2006, the City of El Paso (the "***City***") adopted the City's investment policy;

**WHEREAS,** pursuant to Section 2256.005 of the Texas Government Code, the City is required to review its investment policy on an annual basis; and

**WHEREAS,** the City has reviewed its investment policy and as a result of such review now desires to amend and restate the City's investment policy for fiscal year 2009.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL PASO:**

That the City hereby adopts the amended and restated City of El Paso 2009 Investment Policy which is attached hereto as ***Exhibit A*** and incorporated herein by reference.

**ADOPTED** this _____ day of _____, 2008.

CITY OF EL PASO

_____
John F. Cook
Mayor

ATTEST:

_____
Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:

_____
Bertha A. Ontiveros
Assistant City Attorney

APPROVED AS TO CONTENT:

_____
Carmen Arrieta-Candelaria
Chief Financial Officer

#43044 v1 - Finance/1/Reso 2009 Investment Policy
Document Author: BONT

# EXHIBIT A

# THE CITY OF EL PASO
# 2009 INVESTMENT POLICY

October 2008

# The City of El Paso

# INVESTMENT POLICY

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# The City of El Paso
# Investment Policy

## 1.0 POLICY

It is the policy of the City of El Paso, Texas (the "***City***") to: (i) invest public funds in a manner which will provide maximum safety of principal and liquidity; (ii) provide the highest possible investment return; (iii) meet the daily cash flow demands of the City; and (iv) comply with the Texas Public Funds Investment Act of 1995, as may be amended ("***TPFIA***") and local statutes and resolutions governing the investment of the City's public funds. Definitions and terms contained herein are defined in Section 2256 of TPFIA.

## 2.0 SCOPE

The City of El Paso Investment Policy (this "***Investment Policy***") applies to all cash assets of the City as reported in the City's *Comprehensive Annual Financial Report* except for those funds of the Public Employees Retirement System (PERS) and component units which are governed by other laws, statutes, and ordinances. Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. The City's Investment Strategy is attached as Exhibit "A" and is incorporated for all applicable purposes by reference herein. Investment income will be allocated in accordance with the City's strategy for allocating interest to participating funds as set forth in Appendix "1" to Exhibit "A."

The fund types covered by this Investment Policy are accounted for in the books and records of the City and are as follows:

a. General Fund (which includes the Cash Reserve Fund);
b. Special Revenue Funds;
c. Capital Projects Funds;
d. Debt Service Fund;
e. Enterprise Funds;
f. Internal Service Funds; and
g. Fiduciary Funds.

## 3.0 GENERAL OBJECTIVES

The primary objectives of the City's investment activities, in order of priority, shall be as follows:

### 3.1 Preservation and Safety of Principal

Preservation and safety of principal are the foremost objectives of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

   (i) limiting investments to the types of securities listed in ***Section 6.0*** of this Investment Policy;

   (ii) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with ***Section 5.0***; and

   (iii) diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest rate risk. The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

   (i) structuring the investment portfolio so that securities mature in a manner that cash requirements for ongoing operations will be met, thereby avoiding the need to sell securities on the open market prior to maturity; and

   (ii) investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with ***Section 9.2***.

### 3.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. To a large extent, liquidity shall be determined by the flow of revenues and expenditures predicted by the Financial

Services Department using budgeted cash flow projections and historical data. These cash flow projections shall be at least one (1) year in length.

3.3 Yield

The City's investment portfolio shall be designed with the objective of attaining a rate of return / yield throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the preservation and safety of principal and liquidity objectives described above. The City's core investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity unless otherwise deemed appropriate by the City Manager or his/her designee.

## 4.0 STANDARDS OF CARE

4.1 Prudence

The City's investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the safety of capital and the yield to be derived. The standard of care to be used by Investment Officers shall be said "prudent person" standard and shall be applied in the context of managing an overall portfolio and whether the investment decision was consistent with the written investment policy of the City.

4.2 Training

The Investment Officer(s) shall attend at least one (1) training session from an independent source approved by City Council or a designated investment committee advising the Investment Officer(s) as provided for in the Investment Policy of the City and containing at least ten (10) hours of instruction relating to the officer's responsibilities under Subchapter A. Authorized Investment Governmental Entities of the TPFIA. Such training session shall be taken within twelve (12) months after the Investment Officer(s) takes office or assumes duties. The Investment Officer(s) shall attend an investment training session not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities under Subchapter A. Authorized Investments for Governmental Entities of TPFIA from an independent source approved by the City Council or a designated investment committee advising the Investment Officer as provided for in the investment

policy of the City. This training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Chapter 2256 of TPFIA. Similar training should be received bi-annually by all individuals involved in the investment and cash management functions for the City.

4.3 Ethics and Conflicts of Interest

Investment Officers involved in the investment process shall refrain from personal business activity that could conflict or be perceived to conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. An Investment Officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined by Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this ***Section 4.3*** must be filed with the Texas Ethics Commission and the City Council. For purposes of this ***Section 4.3***, an Investment Officer has a personal business relationship with a business if:

a. the Investment Officer owns ten percent (10%) or more of the voting stock or shares of the business organization or owns five thousand dollars ($5,000) or more of the fair market value of the business organization;

b. funds received by the Investment Officer from the business organization exceeds ten percent (10%) of the Investment Officer's gross income from the previous year; or

c. the Investment Officer has acquired from the business organization during the previous year investments with a book value of two thousand five hundred dollars ($2,500) or more for the personal account of the Investment Officer.

Investment Officers, not required by this ***Section 4.3*** to file a disclosure statement, will file a statement with the City's Ethic Review Committee announcing no potential conflicts.

4.4 Delegation of Authority

The authority to manage the City's investment program is derived from the TPFIA, the El Paso City Charter, City Ordinances and Resolutions. The Chief Financial Officer, Treasury

Services Coordinator, and Deputy City Manager for Financial and Administrative Services are designated as Investment Officers who are responsible for investment transactions; provided, however, that in the event that any or all of the positions are or becomes vacant, the persons acting in such capacity shall be designated as an Investment Officer. All investment procedures shall be in writing and approved by the Chief Financial Officer, Deputy City Manager for Financial and Administrative Services, and the City Manager.

An Investment Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the City's cash management and investment program. The Investment Committee will consist of the Deputy City Manager for Financial and Administrative Services, Chief Financial Officer and the Treasury Services Coordinator. The Investment Committee will report to the City Manager on at least a quarterly basis the activities of the City's investments.

The Treasury Services Coordinator shall be responsible for the day-to-day financial transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Treasury Services Coordinator shall designate one or more staff as a liaison in the event circumstances require timely action and the Treasury Services Coordinator is not available. No other officers or designees may engage in an investment or banking transaction except as provided under the terms of this Investment Policy and the procedures established.

## 5.0 AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

### 5.1 Authorized Institutions

Financial institutions (i.e., banks, savings & loans, credit unions) and securities dealers (i.e., brokers, "primary" and "secondary" dealers) with an office located in the state of Texas (preferably El Paso, Texas) may become authorized to sell / purchase negotiable securities to/from the City. Repurchase Agreements may be entered into with primary securities dealers or financial institutions with offices in Texas.

### 5.2 Selection

The Investment Committee and the City Manager shall at least annually, review, revise, and adopt a list of qualified financial institutions and securities dealers that are authorized to engage in investment transactions with the City.

5.3 List of Authorized Institutions

The Treasury Services Coordinator shall maintain an updated list of financial institutions authorized to provide investment services as well as a list of approved security broker / dealers selected by credit worthiness, who maintain an office in the State of Texas. These may include primary dealers, depository banks, or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).

5.4 Competition

Bids for investments will be solicited by the Treasury Coordinator, as deemed necessary and approved by the Investment Committee, from the approved list of authorized institutions using a competitive bid process in a format designed by the Investment Officer(s). The City's depository bank(s), once selected, may compete for City investments through the competitive bid process established. Bids for investments may be solicited orally, in writing, electronically, or a combination of these methods. Rate of return will be considered the primary factor when selecting a particular bid. The secondary factor will be location of office, preferably within El Paso, Texas.

5.5 Requisite Information

All financial institutions and broker / dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer(s) with the following:

a. audited financial statements;

b. proof of National Association of Securities Dealers certification;

c. trading resolution;

d. proof of state registration; and

e. a certification stating that the broker has read and understands the City's Investment Policy.

5.6 Audited Financials

Current audited financial statements are required to be on file for each financial institution and broker /dealer with which the City invests.

5.7 Receipt of Investment Policy

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Such person shall execute a written instrument in a form acceptable to the City stating that the organization has:

a. received and thoroughly reviewed the Investment Policy ; and

b. implemented reasonable procedures and controls to preclude investment transactions conducted between the City and the organization that are inconsistent with this Investment Policy.

5.8 Denial of Business

No investment business may be conducted with any business organization that has not complied with the certification identified in ***Section 5.5e***. above. For purposes of this ***Section 5.8*** a business organization includes investment pools.

6.0 AUTHORIZED INVESTMENTS

Except as otherwise provided hereinafter, the City may invest in the following types of securities:

6.1 Obligations of, or Guaranteed by, Government Entities

a. The following investments are authorized:

(i) obligations of the United States or its agencies and instrumentalities;

(ii) direct obligations of this state or its agencies and instrumentalities;

(iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by the agency or instrumentality of the United States;

(iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities; and

(v) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

b. The following are NOT authorized investments under this ***Section 6.1***:

(i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(iii) collateralized mortgage obligations which have a stated final maturity date of greater than ten (10) years; and

(iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to changes in a market index.

6.2 Certificates of Deposit and Share Certificates

Certificates of Deposit and share certificates are an authorized investment if the certificate is issued by a state or national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:

a. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; and

b. secured by obligations that are described by ***Section 6.1*** herein above.

6.3 Repurchase Agreements

a. A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:

(i) has a defined termination date;

(ii) is secured by obligations described in ***Section 6.1a(i)***;

(iii) requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and

(iv) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

b. In this ***Section 6.3***, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by ***Section 6.1a(i)***, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

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

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

6.4 Mutual Funds

a. A no-load money market mutual fund is an authorized investment under this ***Section 6.4*** if the mutual fund:

(i) is registered with an regulated by the Securities and Exchange Commission;

(ii) provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(iii) has a dollar-weighted average stated maturity of ninety (90) days or fewer; and

(iv) includes in its investment objectives the maintenance of a stable net asset value of one dollar ($1.00) for each share.

b. In addition to a no-load money market mutual fund permitted as an authorized investment in ***subsection a.***, a no-load mutual fund is an authorized investment under this ***Section 6.4***, if the mutual fund:

(i) is registered with the Securities and Exchange Commission;

(ii) has an average weighted maturity of less than two (2) years;

(iii) is invested exclusively in obligations approved by this ***Section 6.4***;

(iv) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(v) conforms to the requirements set forth in Section 6.5 b. and c. relating to the eligibility of investment pools to receive and invest funds of investing entities.

c. The City is not authorized by this ***Section 6.4*** to:

(i) invest in the aggregate more than fifteen percent (15%) of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in ***Section 6.4b.***;

(ii) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in ***Section 6.4b.***; or

(iii) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in subsection a. or b. in an amount that exceeds ten percent (10%) of the total assets of the mutual fund.

6.5 Investment Pools

a. The City may invest its funds and funds under its control through an eligible investment pool if the City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by ***Section 6.0***.

b. To be eligible to receive funds from and invest funds on behalf of the City under this ***Section 6.5***, an investment pool must furnish to the Investment Officer(s) or other authorized representative of the City, an offering circular or other similar disclosure instrument that contains, at a minimum, the following information;

(i) the types of investments in which money is allowed to be invested;

(ii) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(iii) the maximum stated maturity date any investment security within the portfolio has;

(iv) the objectives of the pool;

(v) the size of the pool;

(vi) the names of the members of the advisory board of the pool and the dates their terms expire;

(vii) the custodian bank that will safekeep the pool's assets;

(viii) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(ix) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(x) the name and address of the independent auditor of the pool;

(xi) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(xii) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

c. To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must furnish to the Investment Officer(s) or other authorized representative of the City:

(i) investment transaction confirmations; and

(ii) a monthly report that contains, at a minimum, the following information:

1. the types and percentage breakdown of securities in which the pool is invested;

2. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

3. the current percentage of the pool's portfolio in investments that have stated maturities of more than one (1) year;

4. the book value versus the market value of the pool's portfolio, using amortized cost valuation;

5. the size of the pool;

6. the number of participants in the pool;

7. the custodian bank that is safekeeping the assets of the pool;

8. listing of daily transaction activity of the entity participating in the pool;

9. the yield and expense ratio of the pool;

10. the portfolio managers of the pool; and

11. any changes or addenda to the offering circular.

d. The City by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

e. In this ***Section 6.5***, "yield" shall be calculated in accordance with regulations governing under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

f. To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a one dollar ($1.00) net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holding shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

g. To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool must have an advisory board composed:

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

(ii) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

h. To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must be continuously rated no lower than AAA or AAAm or at an equivalent rating by at least one nationally recognized rating service.

## 7.0 COLLATERALIZATION/LIMITS/CUSTODY

### 7.1 Collateralization

Collateralization will be required for deposits in demand deposit accounts, certificates of deposit, and repurchase agreements. In order to anticipate market

changes and provide a level of security for all funds, the collateralization level will be one hundred five percent (105%) of market value of principal and accrued interest.

7.2 Limits

The City chooses to limit the collateral requirement to the instruments identified in ***Section 6.1*** hereinabove.

7.3 Custody

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 (e.g., safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted with prior approval of the Investment Officer(s).

## 8.0 SAFEKEEPING AND CUSTODY

8.1 Delivery vs. Payment

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

8.2 Safekeeping

Securities will be held by a third party custodian designated by the Treasury Services Coordinator as evidenced by safekeeping receipts in the City's name. The safekeeping institution shall provide, annually, a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

8.3 Electronic Funds Transfer

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

## 9.0 INVESTMENT PARAMETERS

9.1 Diversification

This Investment Policy incorporates the City's Investment Strategy and as such, will allow for diversification of investments to the extent practicable considering yield, collateralization, investment costs, and available bidders. Diversification by investment

institutions shall be determined by an analysis of yield, collateralization, investment costs, and available bidders. Diversification by types of securities and maturities may be as allowed by this Investment Policy and the TPFIA.

9.2 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. However, the maximum maturities for any single investment shall not exceed three (3) years. The maximum dollar-weighted average maturity for pooled investments will not exceed two (2) years.

9.3 Effect of Loss of Required Rating

This Investment Policy requires certain minimum ratings of certain investments. In the event an investment does not meet that minimum rating during the period that the investment is being held by the City, that investment does not qualify as an authorized investment. The City shall take all prudent measures that are consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

## 10.0 MONITORING AND REPORTING

10.1 Content of Report

The Investment Officer(s) shall submit, not less than quarterly, a report to the City Manager, Mayor and City Council, with a copy provided to the City Clerk. Said report shall:

a. describe in detail the investment position of the City on the date of the report;

b. be prepared jointly by all Investment Officers of the City;

c. be signed by each Investment Officer of the City;

d. contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

(i) beginning market value for the reporting period;

(ii) additions and changes to the market value during the period;

(iii) ending market value for the period; and

(iv) fully accrued interest for the reporting period;

e. 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;

f. state the maturity date of each separately invested asset that has a maturity date;

g. state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

h. state the compliance of the investment portfolio of the City as it relates to:

(i) the Investment Strategy expressed in the City's investment policy; and

(ii) relevant provisions of Chapter 2256 of the Government Code.

i. be submitted within forty-five (45) days after the end of the period.

10.2 Annual Audit

If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officers under this Section 10.0 shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

10.3 Compliance Audit

In conjunction with the City's annual financial audit, the external auditor shall perform a compliance audit of management controls on investments and adherence to the City's established investment policy. This audit shall provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that those transactions are executed in compliance with policies and procedures established by this Investment Policy.

## 11.0 INVESTMENT POLICY ADOPTION

This Investment Policy is intended to amend and restate the existing City investment policies. The City's Investment Policy shall be adopted by resolution of the City Council. This Investment Policy shall be reviewed annually by the City Council and any modifications must be approved by the Investment Committee and City Manager and subsequently adopted by City Council.

# EXHIBIT A
# INVESTMENT STRATEGY

The City's investment strategy establishes the investment objectives of each of the fund types identified in the City's Investment Policy based on the needs and characteristics of each of the funds. These encompass the following criteria in order of importance:

a. understanding of the suitability of the investment to the financial requirements of the entity;

b. preservation and safety of principal;

c. liquidity;

d. marketability of the investment if the need arises to liquidate the investment before maturity;

e. diversification of the investment portfolio; and

f. yield.

The City is not in the investment business as a primary means of earning revenue. Therefore, the City will not participate in active buy / sell management of the portfolio. The Investment Officer(s) will invest for specific maturities to meet the cash needs of the City. The cash available and the cash requirements for the City will be determined on a day-to-day basis by the Financial Services Department and reported to the Investment Officer(s). Cash required within ten (10) days will be invested in overnight repurchase agreements, an approved mutual fund, or an approved investment pool in order to assure immediate liquidity. Interest earned on "overnight" investments listed above will be included in the total of interest revenue to be allocated to those primary funds having both an investable equity in pooled cash and a right to earn interest based on the City's Investment Policy. To enhance liquidity, investments will be purchased but not individually or formally associated with a specific primary fund's equity in pooled cash. Any cash in excess of immediate needs (more than 10 days) will be invested in longer term investments based on the needs and restrictions associated with specific fund's equity in pooled cash, and upon prudent consideration of current market yields and trends. Interest revenue will be allocated to those funds designated by this policy based on the allocation strategy at Appendix 1 to this Exhibit.

## SPECIFIC CITY FUNDS

a. General Fund

The General Fund is the primary operating fund of the City in which most activity occurs. Cash requirements are large and immediate. Investments will be made with highly liquid instruments to mature on specific dates particularly to meet payroll requirements. These investments will most frequently be of durations of less than six (6) months. Specific investments identified as appropriate are, but not limited to, U.S Treasury bills, U.S. Treasury notes, repurchase agreements, certificates of deposit, and investments in mutual funds. Cash reserves in the General Fund are established by Section 7.4 of the City Charter and are to maintain a fund balance of sixteen million dollars ($16,000,000). The interest on this cash reserve shall be transferred to the City's Capital Acquisition Subfund that is a definable component of the Capital Project Fund. This cash reserve is also available for short-term lending to other funds of the City for periods not greater than one (1) year. For

emergency liquidity purposes, up to twenty-five percent (25%) of the cash reserve shall be in investments with maturities no greater than one (1) year. Specific investments identified as appropriate for maturities no greater than one (1) year are, but not limited to, treasury bills, treasury notes, repurchase agreements, certificates of deposits, and mutual funds. The remaining seventy-five (75%) of the fund shall be in investments with maturities greater than one (1) year. In order to maximize yield, these investments may be in treasury bonds. If funds lent from this fund earn interest in another fund, the interest shall be transferred to the cash reserve balance, then transferred to the City's Capital Acquisition Subfund.

b. Special Revenue Funds

Special Revenue Funds are used to fund special operating accounts and finance capital projects and include but are not limited to, projects funded by Federal and State grants. There will rarely be an investable equity balance in these funds. However, should the nature of the grants provide for "up front" funding and require allocation of interest income to the cash balances in the grants, specific investments identified as appropriate are the same as those identified above for the General Fund.

c. Capital Projects Funds

Capital Projects Funds are generally funded by debt instruments and other revenue sources issued or obtained by the City. Investment activity for each debt instrument may be segregated if required by law to determine if any arbitrage rebate liability may exist. Investments will be based on cash flow estimates recommended by the Deputy City Manager for Development and Infrastructure Services with the approval of the Chief Financial Officer. Based on the recommendations of the Deputy City Manager for Development and Infrastructure Services, the Chief Financial Officer will estimate cash requirements and maturities for each project. The Investment Officers will then make investments to meet the cash flow requirements for each project. Interest earnings first will be recorded in the Capital Projects Fund. If interest proceeds remain in the Capital Projects funds after the project(s) is completed, these proceeds may be transferred to the appropriate debt service project in the Debt Service Fund to extinguish the debt whose proceeds are being invested in accordance with bond covenants. Specific investments identified as appropriate are, but not limited to, treasury bills, treasury notes, repurchase agreements, certificates of deposit, mutual funds, investment pools, and treasury bonds.

d. Debt Service Funds

Debt Service Fund projects are established for each debt instrument issued by the City to record revenues and expenditures related to the extinguishment of the debt through timely payment of principal and interest. The primary source of money is from property taxes and specifically pledged revenues. Investments will have a maturity of no more than one (1) year in order to meet the periodic payments as required. Specific investments identified as appropriate are, but not limited to, investment pools, mutual funds, treasury bonds, treasury bills, and certificates of deposit.

e. Enterprise Funds

Enterprise Funds are for the operational and capital needs of the El Paso International Airport (except the Passenger Facility Charge), the Mass Transit Department (Sun Metro), the International Bridges, and Department of Solid Waste Management. Investments may be of longer maturities based on projected cash flow requirements. Specific investments identified as appropriate are, but not limited to, investment pools, mutual funds, treasury bonds, treasury bills, and certificates of deposit.

f. Internal Service Funds

Internal Service Funds are extensions of the General Fund which are to be operated with minimal cash reserves for exigencies and, therefore, should have minimal cash balances. An Internal Service Fund that accumulates and maintains a positive cash balance in excess of One Hundred Thousand Dollars ($100,000) will be allocated investment earnings.

g. Fiduciary Funds

Investments related to Fiduciary Funds will be made by the City as specified in the Fiduciary Fund's agreement, if applicable. Daily earnings on Fiduciary Funds will be credited to the General Fund to offset the cost of maintaining these funds.

h. El Paso Museum of Arts – Endowment Fund

The Endowment Fund will be funded by contributions made to the El Paso Museum of Art. These funds shall be in investments with maturities of greater than one (1) year.

# APPENDIX 1 TO EXHIBIT A

## Strategy for Allocating Interest to Participating Funds

### ALLOCATION OVERVIEW

The process of allocating interest on pooled investments is predicated on two factors: (i) the average interest rate earned by the investment portfolio for the period; and (ii) the net equity in pooled cash a particular fiscal project enjoys for the period being allocated. "Average interest rate" is the weighted average of the stated interest rates of the investments adjusted for accretion/amortization of investments purchased at a discount/premium. "Net equity" in pooled cash is the average daily balance maintained for the period. Only those projects identified as being eligible to earn interest revenue will be considered. Once the average interest rate and net equity in pooled cash are computed, the interest allocation is computed by multiplying the two factors and dividing by 12. The interest is credited to the project by a journal entry to debit Equity in Pooled Cash and credit Investment Interest Revenue. An adjustment in the General Fund is recorded to reflect interest accrued and the difference between allocated Investment Interest Revenue and actual interest earnings received.

### FISCAL PROJECTS – DISCUSSION OF ELIGIBILITY TO PARTICIPATE IN THE ALLOCATION OF INTEREST

| FUND | DISCUSSION |
|---|---|
| General Fund | All components of the General Fund group earn interest. The Cash Reserve fund earnings are transferred to the Capital Acquisitions fund in the Capital Projects group. |
| Capital Projects | All components of the Capital Projects group earn interest if the Capital Projects have sufficient cash balances to warrant allocation. If capital projects are funded with bonded debt whose covenants require interest earnings to be transferred to the Debt Service fund, investment revenue is recorded in Capital Projects and then transferred to Debt Service. |
| Internal Service | Components earn interest if the fund maintains a positive cash balance in excess of One Hundred Thousand Dollars ($100,000). |
| Special Revenue | Only those grants with covenants requiring allocation of interest earnings are eligible. Certain Museum of Art projects are eligible. |

| | |
|---|---|
| Agency Funds (unless specifically designated) | None are eligible to earn interest. |
| Regional Mobility Authority Fund | All are eligible to earn interest. |
| Debt Service | All are eligible to earn interest. |
| Enterprise Funds | All are eligible to earn interest except the Passenger Facility Charge monies in the Airport Enterprise fund which are kept separate in interest bearing accounts as mandated by Federal regulations. |
| Pension Funds | None are eligible to earn interest. |
| Component Units | None are eligible to earn interest. |
| Private-Purpose Trusts | Certain donations and bequests are eligible to earn interest. |

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# The City of El Paso

# INVESTMENT POLICY

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# The City of El Paso
# Investment Policy

## 1.0 POLICY

It is the policy of the City of El Paso, Texas (the "***City***") to: (i) invest public funds in a manner which will provide maximum safety of principal and liquidity; (ii) provide the highest possible investment return; (iii) meet the daily cash flow demands of the City; and (iv) comply with the Texas Public Funds Investment Act of 1995, as may be amended ("***TPFIA***") and local statutes and resolutions governing the investment of the City's public funds. Definitions and terms contained herein are defined in Section 2256 of TPFIA.

## 2.0 SCOPE

The City of El Paso Investment Policy (this "***Investment Policy***") applies to all cash assets of the City as reported in the City's *Comprehensive Annual Financial Report* except for those funds of the Public Employees Retirement System (PERS) and component units which are governed by other laws, statutes, and ordinances. Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. The City's Investment Strategy is attached as Exhibit "A" and is incorporated for all applicable purposes by reference herein. Investment income will be allocated in accordance with the City's strategy for allocating interest to participating funds as set forth in Appendix "1" to Exhibit "A."

The fund types covered by this Investment Policy are accounted for in the books and records of the City and are as follows:

a. General Fund (which includes the Cash Reserve Fund);
b. Special Revenue Funds;
c. Capital Projects Funds;
d. Debt Service Fund;
e. Enterprise Funds;
f. Internal Service Funds; and
g. Fiduciary Funds

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## 3.0 GENERAL OBJECTIVES

The primary objectives of the City's investment activities, in order of priority, shall be as follows:

### 3.1 Preservation and Safety of Principal

Preservation and safety of principal are the foremost objectives of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

   (i) limiting investments to the types of securities listed in ***Section 6.0*** of this Investment Policy;

   (ii) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with ***Section 5.0***; and

   (iii) diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest rate risk. The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

   (i) structuring the investment portfolio so that securities mature in a manner that cash requirements for ongoing operations will be met, thereby avoiding the need to sell securities on the open market prior to maturity; and

   (ii) investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with ***Section 9.2***.

### 3.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. To a large extent, liquidity shall be determined by the flow of revenues and expenditures predicted by the Financial

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Services Department using budgeted cash flow projections and historical data. These cash flow projections shall be at least one (1) year in length.

3.3 Yield

The City's investment portfolio shall be designed with the objective of attaining a rate of return / yield throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the preservation and safety of principal and liquidity objectives described above. The City's core investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity unless otherwise deemed appropriate by the City Manager or his/her designee.

4.0 STANDARDS OF CARE

4.1 Prudence

The City's investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the safety of capital and the yield to be derived. The standard of care to be used by Investment Officers shall be said "prudent person" standard and shall be applied in the context of managing an overall portfolio and whether the investment decision was consistent with the written investment policy of the City.

4.2 Training

The Investment Officer(s) shall attend at least one (1) training session from an independent source approved by City Council or a designated investment committee advising the Investment Officer(s) as provided for in the Investment Policy of the City and containing at least ten (10) hours of instruction relating to the officer's responsibilities under Subchapter A. Authorized Investment Governmental Entities of the TPFIA. Such training session shall be taken within twelve (12) months after the Investment Officer(s) takes office or assumes duties. The Investment Officer(s) shall attend an investment training session not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities under Subchapter A. Authorized Investments for Governmental Entities of TPFIA from an independent source approved by the City Council or a designated investment committee advising the Investment Officer as provided for in the investment

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policy of the City. This training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Chapter 2256 of TPFIA. Similar training should be received bi-annually by all individuals involved in the investment and cash management functions for the City.

4.3 Ethics and Conflicts of Interest

Investment Officers involved in the investment process shall refrain from personal business activity that could conflict or be perceived to conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. An Investment Officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined by Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this ***Section 4.3*** must be filed with the Texas Ethics Commission and the City Council. For purposes of this ***Section 4.3***, an Investment Officer has a personal business relationship with a business if:

a. the Investment Officer owns ten percent (10%) or more of the voting stock or shares of the business organization or owns five thousand dollars ($5,000) or more of the fair market value of the business organization;

b. funds received by the Investment Officer from the business organization exceeds ten percent (10%) of the Investment Officer's gross income from the previous year; or

c. the Investment Officer has acquired from the business organization during the previous year investments with a book value of two thousand five hundred dollars ($2,500) or more for the personal account of the Investment Officer.

Investment Officers, not required by this ***Section 4.3*** to file a disclosure statement, will file a statement with the City's Ethic Review Committee announcing no potential conflicts.

4.4 Delegation of Authority

The authority to manage the City's investment program is derived from the TPFIA, the El Paso City Charter, City Ordinances and Resolutions. The Chief Financial Officer, Treasury

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Services Coordinator, and Deputy City Manager for Financial and Administrative Services are designated as Investment Officers who are responsible for investment transactions; provided, however, that in the event that any or all of the positions are or becomes vacant, the persons acting in such capacity shall be designated as an Investment Officer. All investment procedures shall be in writing and approved by the Chief Financial Officer, Deputy City Manager for Financial and Administrative Services, and the City Manager.

An Investment Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the City's cash management and investment program. The Investment Committee will consist of the Deputy City Manager for Financial and Administrative Services, Chief Financial Officer and the Treasury Services Coordinator. The Investment Committee will report to the City Manager on at least a quarterly basis the activities of the City's investments.

## 5.0 AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

### 5.1 Authorized Institutions

Financial institutions (i.e., banks, savings & loans, credit unions) and securities dealers (i.e., brokers, "primary" and "secondary" dealers) with an office located in the state of Texas (preferably El Paso, Texas) may become authorized to sell / purchase negotiable securities to/from the City. Repurchase Agreements may be entered into with primary securities dealers or financial institutions with offices in Texas.

### 5.2 Selection

The Investment Committee and the City Manager shall at least annually, review, revise, and adopt a list of qualified financial institutions and securities dealers that are authorized to engage in investment transactions with the City.

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5.3 List of Authorized Institutions

The Treasury Services Coordinator shall maintain an updated list of financial institutions authorized to provide investment services as well as a list of approved security broker / dealers selected by credit worthiness, who maintain an office in the State of Texas. These may include primary dealers, depository banks, or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).

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5.4 Competition

Bids for investments will be solicited by the Treasury Coordinator, as deemed necessary and approved by the Investment Committee, from the approved list of authorized institutions using a competitive bid process in a format designed by the Investment Officer(s). The City's depository bank(s), once selected, may compete for City investments through the competitive bid process established. Bids for investments may be solicited orally, in writing, electronically, or a combination of these methods. Rate of return will be considered the primary factor when selecting a particular bid. The secondary factor will be location of office, preferably within El Paso, Texas.

5.5 Requisite Information

All financial institutions and broker / dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer(s) with the following:

a. audited financial statements;

b. proof of National Association of Securities Dealers certification;

c. trading resolution;

d. proof of state registration; and

e. a certification stating that the broker has read and understands the City's Investment Policy.

5.6 Audited Financials

Current audited financial statements are required to be on file for each financial institution and broker /dealer with which the City invests.

5.7 Receipt of Investment Policy

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A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Such person shall execute a written instrument in a form acceptable to the City stating that the organization has:

a. received and thoroughly reviewed the Investment Policy ; and

b. implemented reasonable procedures and controls to preclude investment transactions conducted between the City and the organization that are inconsistent with this Investment Policy.

5.8 Denial of Business

No investment business may be conducted with any business organization that has not complied with the certification identified in ***Section 5.5e***. above. For purposes of this ***Section 5.8*** a business organization includes investment pools.

6.0 AUTHORIZED INVESTMENTS

Except as otherwise provided hereinafter, the City may invest in the following types of securities:

6.1 Obligations of, or Guaranteed by, Government Entities

a. The following investments are authorized:

(i) obligations of the United States or its agencies and instrumentalities;

(ii) direct obligations of this state or its agencies and instrumentalities;

(iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by the agency or instrumentality of the United States;

(iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities; and

(v) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

b. The following are NOT authorized investments under this ***Section 6.1***:

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(i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(iii) collateralized mortgage obligations which have a stated final maturity date of greater than ten (10) years; and

(iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to changes in a market index.

6.2 Certificates of Deposit and Share Certificates

Certificates of Deposit and share certificates are an authorized investment if the certificate is issued by a state or national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:

a. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; and

b. secured by obligations that are described by ***Section 6.1*** herein above.

6.3 Repurchase Agreements

a. A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:

(i) has a defined termination date;

(ii) is secured by obligations described in ***Section 6.1a(i)***;

(iii) requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and

(iv) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

b. In this ***Section 6.3***, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by ***Section 6.1a(i)***, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

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

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

6.4 Mutual Funds

a. A no-load money market mutual fund is an authorized investment under this ***Section 6.4*** if the mutual fund:

(i) is registered with an regulated by the Securities and Exchange Commission;

(ii) provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(iii) has a dollar-weighted average stated maturity of ninety (90) days or fewer; and

(iv) includes in its investment objectives the maintenance of a stable net asset value of one dollar ($1.00) for each share.

b. In addition to a no-load money market mutual fund permitted as an authorized investment in ***subsection a.***, a no-load mutual fund is an authorized investment under this ***Section 6.4***, if the mutual fund:

(i) is registered with the Securities and Exchange Commission;

(ii) has an average weighted maturity of less than two (2) years;

(iii) is invested exclusively in obligations approved by this ***Section 6.4***;

(iv) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(v) conforms to the requirements set forth in Section 6.5 b. and c. relating to the eligibility of investment pools to receive and invest funds of investing entities.

c. The City is not authorized by this ***Section 6.4*** to:

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(i) invest in the aggregate more than fifteen percent (15%) of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in ***Section 6.4b.***;

(ii) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in ***Section 6.4b.***; or

(iii) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in subsection a. or b. in an amount that exceeds ten percent (10%) of the total assets of the mutual fund.

6.5 Investment Pools

a. The City may invest its funds and funds under its control through an eligible investment pool if the City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by ***Section 6.0***.

b. To be eligible to receive funds from and invest funds on behalf of the City under this ***Section 6.5***, an investment pool must furnish to the Investment Officer(s) or other authorized representative of the City, an offering circular or other similar disclosure instrument that contains, at a minimum, the following information;

(i) the types of investments in which money is allowed to be invested;

(ii) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(iii) the maximum stated maturity date any investment security within the portfolio has;

(iv) the objectives of the pool;

(v) the size of the pool;

(vi) the names of the members of the advisory board of the pool and the dates their terms expire;

(vii) the custodian bank that will safekeep the pool's assets;

(viii) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(ix) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(x) the name and address of the independent auditor of the pool;

(xi) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(xii) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

c. To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must furnish to the Investment Officer(s) or other authorized representative of the City:

(i) investment transaction confirmations; and

(ii) a monthly report that contains, at a minimum, the following information:

1. the types and percentage breakdown of securities in which the pool is invested;

2. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

3. the current percentage of the pool's portfolio in investments that have stated maturities of more than one (1) year;

4. the book value versus the market value of the pool's portfolio, using amortized cost valuation;

5. the size of the pool;

6. the number of participants in the pool;

7. the custodian bank that is safekeeping the assets of the pool;

8. listing of daily transaction activity of the entity participating in the pool;

9. the yield and expense ratio of the pool;

10. the portfolio managers of the pool; and

11. any changes or addenda to the offering circular.

d. The City by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

e. In this ***Section 6.5***, "yield" shall be calculated in accordance with regulations governing under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

f. To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a one dollar ($1.00) net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holding shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

g. To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool must have an advisory board composed:

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

(ii) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

h. To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must be continuously rated no lower than AAA or AAAm or at an equivalent rating by at least one nationally recognized rating service.

## 7.0 COLLATERALIZATION/LIMITS/CUSTODY

### 7.1 Collateralization

Collateralization will be required for deposits in demand deposit accounts, certificates of deposit, and repurchase agreements. In order to anticipate market

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changes and provide a level of security for all funds, the collateralization level will be one hundred five percent (105%) of market value of principal and accrued interest.

7.2 Limits

The City chooses to limit the collateral requirement to the instruments identified in ***Section 6.1*** hereinabove.

7.3 Custody

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 (e.g., safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted with prior approval of the Investment Officer(s).

## 8.0 SAFEKEEPING AND CUSTODY

8.1 Delivery vs. Payment

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

8.2 Safekeeping

Securities will be held by a third party custodian designated by the Treasury Services Coordinator as evidenced by safekeeping receipts in the City's name. The safekeeping institution shall provide, annually, a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

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8.3 Electronic Funds Transfer

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

## 9.0 INVESTMENT PARAMETERS

9.1 Diversification

This Investment Policy incorporates the City's Investment Strategy and as such, will allow for diversification of investments to the extent practicable considering yield, collateralization, investment costs, and available bidders. Diversification by investment

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institutions shall be determined by an analysis of yield, collateralization, investment costs, and available bidders. Diversification by types of securities and maturities may be as allowed by this Investment Policy and the TPFIA.

9.2 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. However, the maximum maturities for any single investment shall not exceed three (3) years. The maximum dollar-weighted average maturity for pooled investments will not exceed two (2) years.

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10.0 MONITORING AND REPORTING

10.1 Content of Report

The Investment Officer(s) shall submit, not less than quarterly, a report to the City Manager, Mayor and City Council, with a copy provided to the City Clerk. Said report shall:

a. describe in detail the investment position of the City on the date of the report;

b. be prepared jointly by all Investment Officers of the City;

c. be signed by each Investment Officer of the City;

d. contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

(i) beginning market value for the reporting period;

(ii) additions and changes to the market value during the period;

(iii) ending market value for the period; and

(iv) fully accrued interest for the reporting period;

e. 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;

f. state the maturity date of each separately invested asset that has a maturity date;

g. state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

h. state the compliance of the investment portfolio of the City as it relates to:

(i) the Investment Strategy expressed in the City's investment policy; and

(ii) relevant provisions of Chapter 2256 of the Government Code.

i. be submitted within forty-five (45) days after the end of the period.

10.2 Annual Audit

If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officers under this Section 10.0 shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

10.3 Compliance Audit

In conjunction with the City's annual financial audit, the external auditor shall perform a compliance audit of management controls on investments and adherence to the City's established investment policy. This audit shall provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that those transactions are executed in compliance with policies and procedures established by this Investment Policy.

## 11.0 INVESTMENT POLICY ADOPTION

This Investment Policy is intended to amend and restate the existing City investment policies. The City's Investment Policy shall be adopted by resolution of the City Council. This Investment Policy shall be reviewed annually by the City Council and any modifications must be approved by the Investment Committee and City Manager and subsequently adopted by City Council.

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# EXHIBIT A

## INVESTMENT STRATEGY

The City's investment strategy establishes the investment objectives of each of the fund types identified in the City's Investment Policy based on the needs and characteristics of each of the funds. These encompass the following criteria in order of importance:

a. understanding of the suitability of the investment to the financial requirements of the entity;

b. preservation and safety of principal;

c. liquidity;

d. marketability of the investment if the need arises to liquidate the investment before maturity;

e. diversification of the investment portfolio; and

f. yield.

The City is not in the investment business as a primary means of earning revenue. Therefore, the City will not participate in active buy / sell management of the portfolio. The Investment Officer(s) will invest for specific maturities to meet the cash needs of the City. The cash available and the cash requirements for the City will be determined on a day-to-day basis by the Financial Services Department and reported to the Investment Officer(s). Cash required within ten (10) days will be invested in overnight repurchase agreements, an approved mutual fund, or an approved investment pool in order to assure immediate liquidity. Interest earned on "overnight" investments listed above will be included in the total of interest revenue to be allocated to those primary funds having both an investable equity in pooled cash and a right to earn interest based on the City's Investment Policy. To enhance liquidity, investments will be purchased but not individually or formally associated with a specific primary fund's equity in pooled cash. Any cash in excess of immediate needs (more than 10 days) will be invested in longer term investments based on the needs and restrictions associated with specific fund's equity in pooled cash, and upon prudent consideration of current market yields and trends. Interest revenue will be allocated to those funds designated by this policy based on the allocation strategy at Appendix 1 to this Exhibit.

### SPECIFIC CITY FUNDS

a. General Fund

The General Fund is the primary operating fund of the City in which most activity occurs. Cash requirements are large and immediate. Investments will be made with highly liquid instruments to mature on specific dates particularly to meet payroll requirements. These investments will most frequently be of durations of less than six (6) months. Specific investments identified as appropriate are, but not limited to, U.S Treasury bills, U.S. Treasury notes, repurchase agreements, certificates of deposit, and investments in mutual funds. Cash reserves in the General Fund are established by Section 7.4 of the City Charter and are to maintain a fund balance of sixteen million dollars ($16,000,000). The interest on this cash reserve shall be transferred to the City's Capital Acquisition Subfund that is a definable component of the Capital Project Fund. This cash reserve is also available for short-term lending to other funds of the City for periods not greater than one (1) year. For

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emergency liquidity purposes, up to twenty-five percent (25%) of the cash reserve shall be in investments with maturities no greater than one (1) year. Specific investments identified as appropriate for maturities no greater than one (1) year are, but not limited to, treasury bills, treasury notes, repurchase agreements, certificates of deposits, and mutual funds. The remaining seventy-five (75%) of the fund shall be in investments with maturities greater than one (1) year. In order to maximize yield, these investments may be in treasury bonds. If funds lent from this fund earn interest in another fund, the interest shall be transferred to the cash reserve balance, then transferred to the City's Capital Acquisition Subfund.

b. Special Revenue Funds

Special Revenue Funds are used to fund special operating accounts and finance capital projects and include but are not limited to, projects funded by Federal and State grants. There will rarely be an investable equity balance in these funds. However, should the nature of the grants provide for "up front" funding and require allocation of interest income to the cash balances in the grants, specific investments identified as appropriate are the same as those identified above for the General Fund.

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c. Capital Projects Funds

Capital Projects Funds are generally funded by debt instruments and other revenue sources issued or obtained by the City. Investment activity for each debt instrument may be segregated if required by law to determine if any arbitrage rebate liability may exist. Investments will be based on cash flow estimates recommended by the Deputy City Manager for Development and Infrastructure Services with the approval of the Chief Financial Officer. Based on the recommendations of the Deputy City Manager for Development and Infrastructure Services, the Chief Financial Officer will estimate cash requirements and maturities for each project. The Investment Officers will then make investments to meet the cash flow requirements for each project. Interest earnings first will be recorded in the Capital Projects Fund. If interest proceeds remain in the Capital Projects funds after the project(s) is completed, these proceeds may be transferred to the appropriate debt service project in the Debt Service Fund to extinguish the debt whose proceeds are being invested in accordance with bond covenants. Specific investments identified as appropriate are, but not limited to, treasury bills, treasury notes, repurchase agreements, certificates of deposit, mutual funds, investment pools, and treasury bonds.

d. Debt Service Funds

Debt Service Fund projects are established for each debt instrument issued by the City to record revenues and expenditures related to the extinguishment of the debt through timely payment of principal and interest. The primary source of money is from property taxes and specifically pledged revenues. Investments will have a maturity of no more than one (1) year in order to meet the periodic payments as required. Specific investments identified as appropriate are, but not limited to, investment pools, mutual funds, treasury bonds, treasury bills, and certificates of deposit.

e. Enterprise Funds

Enterprise Funds are for the operational and capital needs of the El Paso International Airport (except the Passenger Facility Charge), the Mass Transit Department (Sun Metro), the International Bridges, and Department of Solid Waste Management. Investments may be of longer maturities based on projected cash flow requirements. Specific investments identified as appropriate are, but not limited to, investment pools, mutual funds, treasury bonds, treasury bills, and certificates of deposit.

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f. Internal Service Funds

Internal Service Funds are extensions of the General Fund which are to be operated with minimal cash reserves for exigencies and, therefore, should have minimal cash balances. An Internal Service Fund that accumulates and maintains a positive cash balance in excess of One Hundred Thousand Dollars ($100,000) will be allocated investment earnings.

g. Fiduciary Funds

Investments related to Fiduciary Funds will be made by the City as specified in the Fiduciary Fund's agreement, if applicable. Daily earnings on Fiduciary Funds will be credited to the General Fund to offset the cost of maintaining these funds.

h. El Paso Museum of Arts – Endowment Fund

The Endowment Fund will be funded by contributions made to the El Paso Museum of Art. These funds shall be in investments with maturities of greater than one (1) year.

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# APPENDIX 1 TO EXHIBIT A

## Strategy for Allocating Interest to Participating Funds

### ALLOCATION OVERVIEW

The process of allocating interest on pooled investments is predicated on two factors: (i) the average interest rate earned by the investment portfolio for the period; and (ii) the net equity in pooled cash a particular fiscal project enjoys for the period being allocated. "Average interest rate" is the weighted average of the stated interest rates of the investments adjusted for accretion/amortization of investments purchased at a discount/premium. "Net equity" in pooled cash is the average daily balance maintained for the period. Only those projects identified as being eligible to earn interest revenue will be considered. Once the average interest rate and net equity in pooled cash are computed, the interest allocation is computed by multiplying the two factors and dividing by 12. The interest is credited to the project by a journal entry to debit Equity in Pooled Cash and credit Investment Interest Revenue. An adjustment in the General Fund is recorded to reflect interest accrued and the difference between allocated Investment Interest Revenue and actual interest earnings received.

### FISCAL PROJECTS – DISCUSSION OF ELIGIBILITY TO PARTICIPATE IN THE ALLOCATION OF INTEREST

| FUND | DISCUSSION |
|---|---|
| General Fund | All components of the General Fund group earn interest. The Cash Reserve fund earnings are transferred to the Capital Acquisitions fund in the Capital Projects group. |
| Capital Projects | All components of the Capital Projects group earn interest if the Capital Projects have sufficient cash balances to warrant allocation. If capital projects are funded with bonded debt whose covenants require interest earnings to be transferred to the Debt Service fund, investment revenue is recorded in Capital Projects and then transferred to Debt Service. |
| Internal Service | Components earn interest if the fund maintains a positive cash balance in excess of One Hundred Thousand Dollars ($100,000). |
| Special Revenue | Only those grants with covenants requiring allocation of interest earnings are eligible. Certain Museum of Art projects are eligible. |

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|---|---|
| Agency Funds | None are eligible to earn interest. |
| Debt Service | All are eligible to earn interest. |
| Enterprise Funds | All are eligible to earn interest except the Passenger Facility Charge monies in the Airport Enterprise fund which are kept separate in interest bearing accounts as mandated by Federal regulations. |
| Pension Funds | None are eligible to earn interest. |
| Component Units | None are eligible to earn interest. |
| Private-Purpose Trusts | Certain donations and bequests are eligible to earn interest. |

# 2009 Adoption of Resolution and Corresponding Investment Policy

For City Council Action

October 14, 2008

Presented by:
Carmen Arrieta-Candelaria
Financial Services Department

# Governance

- **Section 2256 of the Texas Government Code**
  - Otherwise known as the "Texas Public Funds Investment Act ("TPFIA")
  - Cities must adopt a written investment policy regarding the investment of funds
    - Policy must be reviewed on an annual basis
    - City has to adopt a resolution stating that they have reviewed such and record any changes made

# 2009 Proposed Changes

- Added additional language to Section 4.4 Delegation of Authority to reflect the Treasury Services Coordinator's role and responsibilities with respect to day-to-day activities and to restrict any other officer or designee from engaging in investment or banking activities
- Added Section 9.3 regarding the Effect of Loss of Required Rating to comply with Section 2256.021 of the TPFIA and address recent market activity
- Strategy for Allocation Interest to Participating Funds (Appendix 1 to Exhibit A) – identified the Regional Mobility Authority Fund as being eligible to earn interest. This is a new agency fund in 2008 in which the City acts as the fiscal agent for the RMA.

# Questions?