

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

DEPARTMENT: Financial Services

AGENDA DATE: 10/16/07

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. These changes will align the City's Investment policy with certain provisions in the TPFIA related to electronic bidding and funds transfers, requirements related to a compliance audit in conjunction with the City's annual financial audit and specifies the timeline for reporting to the Council and City Manager. In addition, the title of the Treasury Services Manager has been changed to Treasury Services Coordinator to align with her current title.

PRIOR COUNCIL ACTION

Has the Council previously considered this item or a closely related one?

Council adopted a resolution and Investment Policy on September 26, 2006. 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

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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.

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 Investment Policy which is attached hereto as *Exhibit A* and incorporated herein by reference.

ADOPTED this _____ day of _____, 2007.

CITY OF EL PASO

John F. Cook
Mayor

ATTEST:

Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:

Bertha A. Ontiveros

Bertha A. Ontiveros
Assistant City Attorney

APPROVED AS TO CONTENT:

Carmen Arrieta-Candelaria

Carmen Arrieta-Candelaria
Chief Financial Officer

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EXHIBIT A

**THE CITY OF EL PASO
INVESTMENT POLICY**

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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~~least ten (10) hours of instruction relating ~~to the~~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

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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

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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 ~~Manager~~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 ~~Manager~~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.

5.3 List of Authorized Institutions

The Treasury Services ~~Manager~~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.

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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. based on a competitive bid process in a format designated by the Investment Officer(s). Bids for investments will be solicited from the approved brokers as deemed necessary and appropriate by the Investment Committee. The Treasury Manager will conduct the process on a competitive bid basis in a format designated by the Investment Officers. 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.

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- 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;

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- (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;

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- 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.

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.

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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 ~~Manager~~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 Internal Controls~~

~~The City's Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review will 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 the Chief Financial Officer.~~

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.

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

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- (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.

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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

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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.

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 INTERESTFUNDDISCUSSION

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	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.

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GOVERNMENT CODE

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this

code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

- (A) preservation and safety of principal;
- (B) liquidity; and
- (C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any

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nonprofit corporation acting on behalf of any of those entities. Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or

(4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made

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under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section 802.001;
- (2) state funds invested as authorized by Section 404.024;
- (3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;
- (4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;
- (5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or
- (6) a deferred compensation plan that qualifies under

either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997;

Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments

in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds; and

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

- (1) orally;
- (2) in writing;
- (3) electronically; or
- (4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

- (1) understanding of the suitability of the investment

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to the financial requirements of the entity;

(2) preservation and safety of principal;

(3) liquidity;

(4) marketability of the investment if the need arises

to liquidate the investment before maturity;

(5) diversification of the investment portfolio; and

(6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity.

If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's

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funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685,

Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421,

Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) 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 entity 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 under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's

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gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

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(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(1) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January of each even-numbered year a state agency shall report

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the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Sec. 2256.006. STANDARD OF CARE. (a) 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,

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but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS. (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the

investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b) and (e), attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has

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fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by

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Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

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

(3) 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;

(4) 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;

(5) 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; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying

mortgage-backed security collateral and pays no principal;

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

(3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

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

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but

excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;

(4) the depository institution selected by the investing entity under Subdivision (1) acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity; and

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(5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing entity under Subdivision (1) receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Subdivision (1).

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997; Acts 2005, 79th Leg., ch. 128, Sec. 1, eff. Sept. 1, 2005.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS.

(a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1); and

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

(4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial

institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), 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 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES.

A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under

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the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER.

Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under

this subchapter if the mutual fund:

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

(2) provides the investing entity 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.);

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

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 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 subchapter if the mutual fund:

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

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

(3) is invested exclusively in obligations approved by this subchapter;

(4) 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

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(3) 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 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

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(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the

bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a)

An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

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

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

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

(4) the objectives of the pool;

(5) the size of the pool;

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

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

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

(9) 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;

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

(11) 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

(12) 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 an entity under this chapter, an investment pool

must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

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

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

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

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering

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Circular.

(d) An entity 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, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies 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 an entity under this chapter, 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 \$1 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 holdings 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 an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) 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 and managed by a state agency; or

(2) of participants in the pool and other persons who do

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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 an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1,

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Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS: MUNICIPAL UTILITY.

(a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related

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security and insurance agreements in relation to fuel oil, natural gas, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, and electric energy futures or options or similar contracts on those commodity futures as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING

TRUST. (a) In this section:

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(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., ch. 121, Sec. 1, eff. Sept. 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction

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of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

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

(A) beginning market value for the reporting period;

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

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(C) ending market value for the period; and

(D) fully accrued interest for the reporting period;

(5) 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;

(6) state the maturity date of each separately invested asset that has a maturity date;

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

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity 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 shall be formally reviewed at least annually by

an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

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(2) an entity created under Chapter 392, Local Government Code; or

(3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other

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law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry

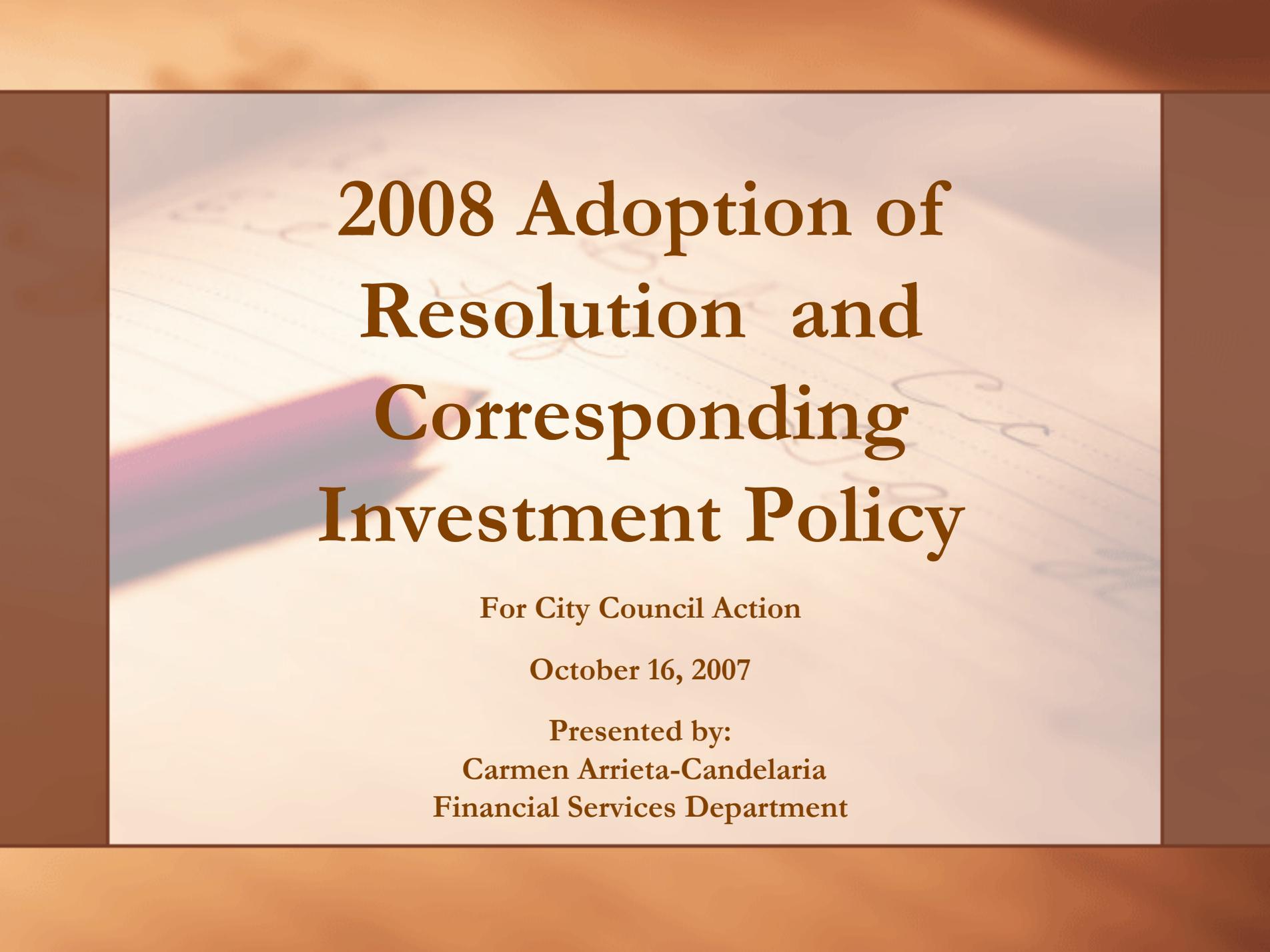
procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

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The background of the slide features a close-up, slightly blurred image of a document with a pen resting on it. The document has some faint, illegible text and a signature. The pen is dark and positioned diagonally across the page. The overall color scheme is warm, with shades of brown and beige.

2008 Adoption of Resolution and Corresponding Investment Policy

For City Council Action

October 16, 2007

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

2008 Proposed Changes

- **Aligned Section 4.1 Standard of Care with current TPFIA language by adding the following language:**
 - “and whether the investment decision was consistent with the written investment policy of the City.”
- **Alignment with current TPFIA language related to electronic bidding and funds transfer**
 - Section 5.4 changed to include “Bids for investments may be solicited orally, in writing, electronically, or a combination of these methods.” (This section was also revised for clarity.)
 - Section 8.3 added to state that “the City may use electronic means to transfer or invest all funds collected or controlled by the City.”
- **Changed title of Treasury Services Manager to Treasury Services Coordinator to align with title change due to recent class and comp study**

2008 Proposed Changes

- **Section 10.0 changed to “Monitoring and Reporting”**
 - **Adds provision that quarterly report must be submitted within forty-five (45) days after the end of the period.**
 - **Added Section 10.3 to clarify the Compliance Audit called for in the Act**
 - “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.”
 - Replaced the deleted Section 8.3 related to Internal Controls



Questions?