



CITY OF KELLER, TEXAS

INVESTMENT POLICY

As adopted by the Keller City Council – Resolution No. 4833, September 3, 2024.

**CITY OF KELLER, TEXAS
INVESTMENT POLICY**

**CITY OF KELLER
MISSION STATEMENT**

The mission of the City of Keller is to ensure a safe, comfortable environment for all citizens by realizing a vision that is well planned and sensitive to the community.

We are dedicated to the provision of quality services and facilities for today and tomorrow through responsive, efficient and effective utilization of resources.

PREFACE

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

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for City funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. The City will invest public funds in a manner that will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the City.

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

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INVESTMENT POLICY
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Certification of Business Organization Sample Form

1. PURPOSE. The purpose of this Investment Policy (the "Policy") is to set forth specific investment policy and strategy guidelines for the City in order to achieve the goals of safety and liquidity, achieve a market rate of return, and maintain public trust in all investment activities.

2. INVESTMENT STRATEGY. The City maintains a comprehensive and proactive cash management program that is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate of return. (For the purpose of this Policy, a "market rate of return" refers to the approximate interest rate that could be earned by an investor in a specific maturity range at any given point in time. For example, an investor seeking to earn a market rate of return while maintaining an investment portfolio with an average maturity of 90 days would hope to earn approximately the same as a three-month agency discount note. If the investor earns a rate much higher than this, it might signal an inappropriate level of risk.) The basic and underlying strategy of this program is that all of the City's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investment instruments as defined in Section 6 of this Policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of instruments offering independent returns. This strategy incorporates the use of local government investment pools and financial institution deposits to maintain liquidity. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require.

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

- Safety and preservation of principal;
- Maintenance of sufficient liquidity to meet operating needs;
- Maintain public trust; and
- Achieve a market rate of return on the investment portfolio.

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

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

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

- It is straight-forward and easily understood;

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

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

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

Duties of the Investment Advisor shall include, but not be limited to, assistance in purchasing securities and other instruments, securities clearance, producing required reports, pricing the portfolio, performing due diligence on broker/dealers, market monitoring, and economic review.

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

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

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

2.2.4.2 Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s). These funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements.

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

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

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

2.2.5 **Strategy No. 5 - Hold until Maturity.** The strategy of the City is to maintain sufficient liquidity in its portfolio so that it does not need to liquidate an investment prior to maturity. Should it become necessary to liquidate an investment prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the Finance Committee must be obtained. Investments may be sold prior to maturity by an Investment Officer at or above their book value at any time, with the consent of the City Manager. The result of all sales of investments prior to maturity shall be reported to the Finance Committee within two business days of the sale. The report shall provide the amount of proceeds from the sale, including accrued interest to the date of sale, less the current book value and the dollar amount of gain or loss on the sale.

2.2.6 **Strategy No. 6 - Pooling of Deposits and Investments.** The City will concentrate high activity demand accounts with one primary depository. This procedure will maximize the City's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, non-primary depositories of the City shall be eligible to bid on other City deposits and investments.

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

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

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

3. SCOPE. The Investment Policy shall govern the investment of all financial assets considered to be part of the City entity and includes the following funds or fund types: the General Fund; enterprise funds, including the Water and Sewer Utility Fund and Drainage Utility Fund; Debt Service Funds; Capital Projects Funds; Internal Service funds; Special Revenue funds; and any other funds which have been contractually delegated to the City for management purposes, e.g., the Keller Development Corporation, the Keller Tax Increment Reinvestment Zone #2, and the Keller Crime Control Prevention District. The City may add or delete funds as may be required by law, or for proper accounting procedures. This Policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the City by outside agencies under retirement or deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds.

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

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

4.2 **Liquidity.** The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as will provide the liquidity necessary to pay obligations as they become due. An investment may be liquidated prior to its stated maturity to meet unanticipated cash requirements, or to otherwise favorably adjust the City's portfolio, in accordance with Section 2.5 above.

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

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

5. INVESTMENT RESPONSIBILITY. As provided in this Policy, responsibility for the daily operation and management of the City's investments shall be as follows:

5.1 **Delegation of Authority.** The Director of Finance and the Assistant Director of Finance are the "Investment Officers" of the City. Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the investment program, consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of the Investment Officers and subordinate staff members involved in the investment process. The system of controls shall be designed to provide reasonable assurance that the assets of the City are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:

- (1) The cost of a control should not exceed the benefits likely to be derived; and
- (2) The valuation of costs and benefits requires estimates and judgments by management.

The Director of Finance shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to the Assistant Director of Finance. Both the Director of Finance and the Assistant Director of Finance are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance. Commitment of financial and staffing resources in order to optimize investment return through active portfolio management shall be the responsibility of the City Council.

5.2 **Prudence.** The standard of prudence to be applied by the Investment Officers shall be the "prudent person" rule, which states, "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

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

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

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

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

5.5 **Finance Committee.** The City Council has established the City of Keller Finance Committee by Resolution. In matters related to the City's investment program, the Finance Committee shall meet at least quarterly, or otherwise as needed, to determine general strategies and to monitor results of the City's portfolio. The Finance Committee shall include in its deliberations such topics as economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized broker/dealers, authorized independent training sources, and the target rate-of-return on the investment portfolio. The Finance Committee shall provide for minutes of its meetings. Any two members of the Committee may request a special meeting, and three members shall constitute a quorum. The Director of Finance shall serve as the chair of the Finance Committee.

5.6 **Investment Training.** In order to ensure qualified and capable investment management, the Investment Officers shall attend at least one training session accumulating at least ten (10) hours relating to the Officer's responsibility under the Act within twelve (12) months after assuming duties, and attend investment training session(s) not less than once every two years (aligned with the City's fiscal year end), receiving an additional eight (8) hours of training. Such training from an independent source shall be approved by the Finance Committee.

6. AUTHORIZED INVESTMENTS. As stated previously, safety of principal is the primary objective in investing public funds and can be accomplished by limiting two types of risk — credit risk and interest rate risk. Credit risk is the risk associated with the failure of an issuer or backer to repay principal and interest in full. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the City's primary objective, only certain investments are authorized as acceptable investments for the City. The following list of authorized investments for the City intentionally excludes some investments authorized by law. These restrictions are placed in order to limit possible risk and provide the maximum measure of safety to City funds.

6.1 **Authorized and Acceptable Investments.** The authorized list of investment instruments are as follows:

- (1) Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities, and including the Federal Home Loan Banks.

- (2) Direct obligations of the State of Texas, or its agencies and instrumentalities.
- (3) Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, but excluding mortgage-backed securities.
- (4) Obligations of agencies, counties, cities, and other political subdivisions of the State of Texas rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- (5) Financial Institution Deposits of state and national banks, savings banks, or state or federal credit unions that meet the requirements of the PFIA and this Policy.
- (6) Public funds investment pools which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code, provided that:
 - The investment pool has been authorized by the City Council;
 - The pool shall have furnished an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
 - The pool shall furnish investment transaction confirmations with respect to all investments made with it;
 - The pool shall furnish monthly reports containing the information required under Section 2256.016(c) of the Texas Government Code;
 - The pool is continuously rated no lower than "AAA" or "AAAm" or an equivalent rating by at least one nationally recognized rating service;
 - The pool marks its portfolio to market daily;
 - The pool's investment objectives shall be to maintain a stable net asset value of one dollar (\$1.00); and
 - The pool's investment philosophy and strategy are consistent with this Policy.
- (7) Regulated no-load money market mutual funds are authorized, under the following conditions:
 - The money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
 - The fund provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
 - The investment objectives include the maintenance of a stable net asset value of one dollar (\$1.0000) per share; and
 - The fund is continuously rated no lower than "AAAm" or an equivalent rating by at least one nationally recognized rating service.

The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund.

- (8) Repurchase Agreements and fully Flexible Repurchase Agreements (flex repos) are authorized in this Policy, to the extent permitted under the Act (Texas Government Code 2256.011). The use of flex repos shall be limited to the investment of bond proceeds and the maturity date of any such agreement shall not exceed the expected proceeds draw schedule.

6.2 Prohibited Investments. The following instruments are eligible for investment by local government according to State law, but they have been intentionally prohibited for the City by this Policy: mortgage-related obligations, commercial paper, banker’s acceptances, securities lending, guaranteed investment contracts, options, and financial futures contracts. In addition to these restricted investments, State law specifically prohibits investment in the following securities:

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

6.3 Effect of Loss of Rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. At least quarterly, the City shall monitor the rating of all investments, as applicable.

6.4 Exemption for Existing Investments. The City is not required to liquidate investments authorized at the time of purchase.

7. DIVERSIFICATION. Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.

7.1 Diversification by Maturities. The longer the maturity of investments, the greater their potential price volatility. Therefore, it is the City’s policy to concentrate its investment portfolio in shorter-term investments in order to limit principal risks caused by change in interest rates. The City will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in instruments maturing more than three (3) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The City shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities, as appropriate. Maturity scheduling shall be managed by the Investment Officers so that maturities of investments shall be timed to coincide with projected cash flow needs.

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

	<u>Percentage of Portfolio (Maximum)</u>
U.S. Treasury Obligations	80%
U.S. Government Agency and Government-Sponsored Enterprise Obligations	80%
State of Texas and agencies, counties, cities, and other political subdivisions of the State Obligations	40%
Authorized Local Government Investment Pools	80%

Financial Institution Demand and Money Market Accounts	80%
Financial Institution Certificates of Deposits	80%
SEC-Regulated No-Load Money Market Mutual Funds	40%
Repurchase Agreements (exclusive of bond proceeds)	40%

7.3 The City shall invest local funds in investments yielding a market rate-of-return while providing necessary protection of the principal consistent with the operating requirements of this section or written policies.

8. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS. All primary banking services arrangements will be governed by a depository contract awarded by the City Council. The Director of Finance will approve non-primary deposit agreements. Broker/dealers authorized to provide investment services to the City may include only those authorized, at least annually, by the Finance Committee.

8.1 All institutions with whom the City does investment-related business must supply the following (as appropriate and/or applicable): (1) audited financial statements; (2) proof of Financial Industry Regulatory Authority (FINRA) regulation; (3) proof of state registration.

8.2 As necessary, a review of the financial condition and registration of qualified institutions will be conducted by the Director of Finance. The review may include, but is not limited to, review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and brokers/dealers desiring to conduct business with the City shall be required to provide any financial data requested by the Finance Committee or Investment Officers.

8.3 Selection criteria for federally insured primary depository bank shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the primary banking services financial institution must be located within the corporate boundaries of the City, unless exempted by action of the City Council. Depositories located outside the City limits may be eligible to bid on investment deposits, provided the financial institution maintains a main or branch office within the State.

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

8.5 The City will encourage a competitive investment environment for the placement of all investment funds. Including, but not limited to, soliciting multiple transaction quotes, monitoring local government investment pool and money market mutual fund performance, analyzing financial institution deposit options, and reviewing investment provider competitiveness.

8.6 Local government investment pools and discretionary investment management firms shall provide certification of having read the City's Investment Policy signed by a qualified representative of the organization, acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

9. DELIVERY VERSUS PAYMENT. It is the policy of the City that all security transactions entered into with the City shall be conducted on a "**DELIVERY VERSUS PAYMENT**" (DVP) basis through the Federal Reserve System, or similar system. By doing this, City funds are not released until the City has received, through the settlement system, the investment purchased. The City shall authorize the release of funds only after the safekeeping bank receives the purchased security in the safekeeping account of the City.

10. SAFEKEEPING AND COLLATERALIZATION.

10.1 **Safekeeping and Custody.** All investments owned by the City shall be held by the City or its safekeeping agent. The collateral for financial institution deposits will be held in a Federal Reserve Bank account in the City's name, or an independent third-party custodian, at the City's discretion. Safekeeping and custodian receipts shall be obtained and held by the City. The City shall contract with an institution(s) for the safekeeping and custody of investments either owned by the City as part of its investment portfolio or held as collateral to secure deposits.

10.2 **Collateralization.** Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a financial institution not covered by FDIC or National Credit Union Share Insurance Fund (NCUSIF) insurance. Securities pledged as collateral shall be held in a segregated account in the City's name at the Federal Reserve Bank or by an independent third party approved by the City. The agreement is to specify the acceptable pledged securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The custodial agreement must clearly state that the custodian is instructed to release pledged securities to the City in the event the City has determined that the depository has failed to pay and satisfy, when due, any check, draft, voucher, wire, or ACH transfer lawfully drawn against any deposit and the interest on such deposits, or has determined that the funds of the City are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of pledge, e.g., custody receipt, must be supplied to the City and retained by the City. Any collateral with a maturity over five (5) years must be approved by an Investment Officer before the transaction is initiated. Release of collateral must be approved in writing by an Investment Officer. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City. The collateralized deposit portion of the agreement shall define the City's rights to collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

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

10.2.1.1 The City may accept the following as collateral for financial institution deposits;

- FDIC or NCUSIF coverage;
- U.S. Government obligations authorized by the Public Funds Collateral Act;
- State of Texas bonds; or
- Bonds issued by other Texas governmental entities (City, County, school district, or special districts) with a remaining maturity of twenty (20) years or less. Bonds must be (and must remain) investment quality: that is, with a rating of at least "A" or its equivalent.
- Letter of Credit issued by the Federal Home Loan Bank.

10.2.1.2 For certificates of deposit and other evidences of deposit, the market value of securities pledged as collateral shall be greater than or equal to 102% of the non-insured deposit balance plus accrued interest. Deposits secured with irrevocable letters of credit shall have 100% of principal plus anticipated interest of the deposit, less any amount insured by the FDIC or NCUSIF.

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

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

12. PERFORMANCE. The City's investment portfolio shall be designed to obtain a market rate of return on investments consistent with risk constraints and expected cash flow of the City. Weighted average yield to maturity shall be the performance measurement standard.

13. REPORTING. The Director of Finance shall submit a quarterly investment report signed by the Investment Officers that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investments, maturities, risk characteristics, and shall explain the total investment income for the quarter. An independent auditor, in conjunction with the annual audit, shall formally review the reports prepared by the Director of Finance at least annually, and that auditor shall report the result of the review to the City Council.

13.1 Annual Report. The Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council.

13.2 Methods. The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Finance Committee and City Council. The report will include the following:

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

13.2.2 Unrealized gains or losses resulting from appreciation or depreciation by listing the ending book and market value of investments for the period. Market values shall be obtained from independent sources or portfolio reporting services;

13.3.3 Fully accrued interest for the reporting period;

13.3.4 Average weighted yield to maturity of portfolio investments as compared to applicable benchmarks;

13.3.5 Listing of investments by maturity date;

13.3.6 The percentage of the total portfolio which each type of investment represents; and

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

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

**TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION**

[SAMPLE]

CITY OF KELLER, TEXAS

This certification is executed on behalf of the City of Keller, Texas (the "City") and _____ (the "Business Organization"), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the City as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the City that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

Qualified Representative of Business Organization

Firm: _____

Signature

Printed Name: _____

Title: _____

Date: _____