CITY OF GRAND PRAIRIE

INVESTMENT POLICIES

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Prepared by the Finance Department

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INVESTMENT POLICIES
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CITY OF GRAND PRAIRIE
INVESTMENT POLICIES
MARCH 1, 1986
As Revised October 14, 2014

I. Introduction

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

Cash management is defined as the process of managing monies in order to ensure optimize cash availability and optimum yield on short-term investment of idle cash. Pursued objectives include expediting revenue receipts and slowing down disbursements of cash.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of its available cash.

The Public Funds Investment Act Chapter 2256 Government Code of Texas as amended prescribes that each city is to adopt rules governing its investment practices. The "Investment Policies" are intended to fulfill the requirements of this State law.

II. Responsibility

These policies are developed by the City Manager to guide the Chief Financial Officer and staff in investment matters. The overriding goal of the Investment Policies is to enable the City to achieve the objectives of preservation and safety of principal, liquidity and yield while conducting its operations consistent with the Council-Manager form of government established in the City Charter.

The purpose of the Investment Policies is to provide guidelines for the Chief Financial Officer in planning and directing the City's day-to-day investment affairs and in developing recommendations to the City Manager.

The City Manager designates the Chief Financial Officer as the City's chief investment officer. The Cash & Debt Manager, Controller, and Cash & Debt Analyst are designated as additional investment officers. The Chief Financial Officer is responsible for the City's comprehensive cash management program, including the administration of the Investment Policies. The Chief Financial Officer is responsible for considering the quality and capability of staff involved in investment management and procedures. The Chief Financial Officer shall be responsible for authorizing investments and the Cash & Debt Manager shall account for investments and pledged collateral in order to maintain appropriate internal controls. The Controller shall be responsible for recording investments in the City's books of accounts. The Internal Audit staff shall audit records monthly and the external auditors will review for management controls on investments and adherence to policy as required by law.

III. Investment Committee

An Investment Committee consisting of the Cash & Debt Analyst, Cash & Debt Manager, Controller, Chief Financial Officer, and Deputy City Manager shall meet as frequently as necessary to review the City's investment portfolio. The committee shall also meet as necessary to add or delete a financial institution or broker/dealer from the list of institutions with whom the City may do business or to conduct other business. The committee shall also meet to review prospectuses, financial statements and other performance data on Money Market Mutual Funds and shall formulate recommendations on the advisability of investing in specific funds for the consideration of the City Council.

Any three of the five investment committee members constitute a quorum. The Cash & Debt Manager shall serve as chairman of the committee, and maintain written record of investment committee meetings.

IV. Authorized Investments

The City may only invest in:

1. Obligations of the United States or its agencies and instrumentalities (except for derivatives and mortgage pass-through securities).

2. Repurchase agreements whose underlying collateral consists of obligations of the United States or its agencies and instrumentalities with remaining maturity of three years or less.

3. Municipal Securities (State, City, County, school or road district general obligation or revenue bonds) (out-of-state bonds shall only be general obligation bonds) with a remaining maturity of three years or less which have received a rating by at least two nationally recognized credit rating agencies of at least A or its equivalent.

4. Public Funds Investment Pool with a weighted average maturity of 90 days or less whose investment objectives include seeking to maintain a stable net asset value of $1 per share. The pool shall consist of the above securities plus the following securities created under the Interlocal Cooperation Act. The pool must enter into a contract approved (by resolution) by the Grand Prairie City Council to provide investment services to the City.

    a. Commercial paper with a stated maturity of 90 days or less from the date of its issuance that either:

        is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies, or

        is rated at least A-1, P-1, or the equivalent by at least 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 thereof.

    b. Prime domestic bankers' acceptances meaning a bankers' acceptance with a stated maturity of 270 days or less from the date of its issuance that will be, in accordance with its terms, liquidated in full at maturity, that is eligible for collateral for borrowing from a Federal

Reserve bank, and that is accepted by a bank organized and existing under the laws of the United States or any state the short-term obligations of which (or of a bank holding company of which the bank is the largest subsidiary) are rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency.

c. The 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. The pool must provide monthly reports that contain:
    - the types and percentage breakdown of securities in which the pool is invested;
    - the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
    - the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
    - the book value versus the market value of the pool's portfolio, using amortized cost valuation;
    - the size of the pool;
    - the number of participants in the pool;
    - the custodian bank that is safekeeping the assets of the pool;
    - a listing of daily transaction activity of the entity participating in the pool;
    - the yield and expense ratio of the pool;
    - the portfolio managers of the pool; and
    - any changes or addenda to the offering circular.

d. 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.

e. 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 not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

f. 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.

5. An SEC-registered, no-load money market mutual fund approved (by resolution) by the City Council with a dollar-weighted average portfolio maturity of 90 days or less whose investment objectives include seeking to maintain a stable net asset value of $1 per share. By state law the City is not authorized to invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds, in money market mutual funds described in this subsection or

to invest its funds or funds under its control, excluding bond proceeds, in any one money market mutual fund in an amount that exceeds 10 percent of the total assets of the money market mutual fund.

6. Collateralized or insured certificates of deposit and other evidences of deposit at federally insured banks, fully guaranteed or insured by the FDIC (Federal Deposit Insurance Corporation) in the State of Texas.

V. Prohibited Investments

The City's authorized investment options are more restrictive than those allowed by State law. Furthermore, this policy specifically prohibits investment in the following investment 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 10 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.

VI. Diversification

Investments shall be diversified to reduce the risk of loss resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities.

The asset mix of the City's portfolio is expressed in terms of maximum commitment so as to allow flexibility to take advantage of market conditions. The asset mix requirements are as follows:

		% Maximum
1.	U.S. Treasury Bills and Notes	100
2.	U.S. Agency or Instrumentality Obligations (each type)	25 (a)
3.	Repurchase Agreements	20
4.	Municipal Securities (total)	40
5.	Municipal Securities (out-of-state)	20
6.	Certificates of Deposit (per institution)	20
7.	Money Market Mutual Fund	50 (b)
8.	Public Funds Investment Pool	50

(a) Total agency investments limited to no more than 100% of the total portfolio.
(b) State law allows up to 80% of monthly average fund balance, excluding bond proceeds. The City limits it's exposure to 50% to reduce risk.

In addition, the City may invest in callable securities but shall limit the total amount to no more than 50% of the portfolio.

VII. Qualifying Institutions

Financial institutions (Federally insured banks) with and through whom the City invests in Certificate of Deposits shall be located in the State of Texas. Broker/dealers through whom the City purchases U. S. Government securities may include those dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York, also known as the "primary government securities dealers" and First Southwest Company except that repurchase agreements shall not be executed through First Southwest Company. In addition, other regional broker/dealers may be considered by the Investment Committee.

The City shall evaluate the financial institutions' and broker/dealers' soundness to the extent the investment committee considers necessary. Investigation may include review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and broker/dealers with whom the City wishes to do business shall provide the financial data requested by the City.

The investment committee shall review the information and decide on the soundness of a financial institution or broker/dealer before adding the institution to the list of those with whom the City does business. The list of approved brokers/dealers shall be annually adopted by the Investment Committee. An institution must be approved by the investment committee and added to the approved list before any business can be transacted with the City. In addition, the institution must acknowledge in writing by a qualified representative that the institution has received and thoroughly reviewed the City's investment policy and acknowledged they have implemented reasonable procedures and controls in an effort to preclude imprudent investment activities between the City and the institution.

VIII. Safekeeping

Investments in U. S. Treasury agency and instrumentality obligations purchased by the city and securities pledged as collateral for certificates of deposit or other evidences of deposit and for repurchase agreements shall be retained in safekeeping in a third party safekeeping bank or in the Federal Reserve Bank in the City's name. The city, financial institution, and the safekeeping bank(s) shall operate in accordance with a master safekeeping agreement signed by all three parties. The city shall always hold the original safekeeping receipt for its investments and for pledged collateral.

One of the city's designated investment officers must approve release of collateral in writing prior to its removal from the safekeeping account.

Securities owned by the City and collateral securities pledged to the City which must be maintained in safekeeping must be maintained at a bank other than the bank through which the specific owned security is purchased or from which the specific collateral security is pledged.

IX. Collateral Securities for Certificates of Deposit and Demand Accounts

Collateralization is required for all uninsured collected balances, plus accrued interest if any. The City will accept as collateral for its certificates of deposit and demand accounts and other evidences of deposit the following securities:

- FDIC coverage
- Obligations of the United States or its agencies and instrumentalities (except for derivatives and mortgage pass-through securities)
- State, city, county, school, or road district general obligation or revenue bonds*, except that out-of-state bonds shall be limited to general obligation bonds
- City of Grand Prairie revenue bonds or general obligation bonds, time warrants, tax notes and certificates of obligation

* The securities must be rated at least A by at least on of the nationally recognized rating services. Collateral consisting of out-of-state bonds shall be limited to ten percent (10%) of the total collateral pledged by a financial institution.

Collateral securities shall have a remaining life of no more than 5 years. The securities shall be marked-to-market no less frequently than monthly, and the ratio of collateral market value to amount invested plus accrued interest shall be no less than 105%.

The above constitutes the only acceptable means of collateralizing the City's deposits. Collateral securities must be owned outright by the pledging financial institution. The collateral securities must be held in safekeeping by a third-party custodian designated by the entity and in the City's name the Federal Reserve Bank or the Federal Home Loan Bank of Dallas pursuant to a safekeeping agreement signed by the financial institution and the City. The pledging financial institution may substitute collateral securities with securities of acceptable quality upon obtaining written authorization from the City. Collateral shall be audited at least annually by the City's independent auditors and may be audited by the City at any time during normal business hours of the safekeeping bank.

The financial institutions with which the City invests and/or maintains other deposits shall provide monthly, and as requested by the City, a listing of the City's certificates of deposit and other deposits at the institution and a listing of the collateral pledged to the City marked to current market prices. The listing shall include total pledged securities itemized by:

Name
Type/description
Par value
Current market value
Maturity date
Nationally recognized credit rating agency rating (if available)

The City and the financial institutions shall assume responsibility for ensuring that collateral is sufficient.

X. Investment Practice - General

All investment decisions shall be internally documented and approved before execution by any two of the investment officers. All funds reported in the City's Comprehensive Annual Financial Report (CAFR) are included in the Pooled Investment Fund. Any of the above investment officers may order investments orally, but the financial institution or broker/dealer shall follow up the investment order with a written confirmation.

All investments purchased by the City and held in safekeeping in a third-party safekeeping institution shall be purchased "delivery versus payment." That is, the City shall authorize the release of its funds only after it has

received notification from the safekeeping bank that a purchased security has been received in the City's safekeeping account. This notification may be oral, but will be followed up in writing with the original safekeeping receipt.

The City must have confirmation from the Federal Reserve Bank or Federal Home Loan Bank of Dallas that collateral pledged from a financial institution is in the City's account before investing in certificates of deposit or other evidences of deposit at the financial institution. This confirmation may be oral, but must be followed up in writing with the original safekeeping receipt.

Competitive quotations shall always be taken for certificates of deposit and shall be taken for U.S. Treasury security investments as considered prudent by the investment committee.

Effect of Loss of Required Rating – All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. This includes consideration of final maturity date, realized amount of gain/loss, alternative investment options, rating agency analyses and their rationale.

Rating changes will be monitored through the information published by the rating agencies, industry newsletters and broker/dealer notifications.

XI. Reporting

The City Manager shall report quarterly to the City Council on the City's investments. The report must:

- describe in detail the investment position of the City on the date of the report;
- be prepared jointly by all investment officers of the City;
- be signed by each investment officer of the City;
- contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states the:
- beginning market value for the reporting period;
- additions and changes to the market value during the period;
- ending market value for the period; and
- fully accrued interest for the reporting period;
- 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;
- state the maturity date of each separately invested asset that has a maturity date;
- state the account or fund or pooled group fund in the city for which each individual investment was acquired; and
- state the compliance of the investment portfolio of the City as it relates to:
    - the investment strategy expressed in the City's investment policy; and
    - relevant provisions of the public funds investment act.

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.

Each month Bank of New York Mellon shall provide market prices of all the City’s investment securities for which they hold as the City’s third party safekeeping bank.

XII. Training

State law requires the investment officers of a local government shall attend at least one training session relating to the investment officers' responsibilities within 12 months of assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

In addition, the Investment Officer must attend an investment training session not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years thereafter. Not less than 10 hours of instruction is required 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.

XIII. Strategy

The City accounts for investments in one fund -- the Pooled Investment Fund. Investment maturities shall be lengthened during times of falling interest rates and shortened during times of rising interest rates, within the boundaries of safety of principal, maturity, diversity, liquidity, and quality expressed elsewhere in these policies.

The investment maturity schedule shall correspond with the City's projected cash flow needs. Remaining maturities on individual investments purchased shall be no longer than 3 years. An average remaining maturity of 365 days or less shall be maintained on bond proceeds subject to arbitrage rebate restriction, and the total portfolio average remaining maturity shall not exceed one year.

Bond Sale proceeds are part of the Pooled Investment Fund. As such arbitrage is an issue where the city continues to pursue maximizing yield on applicable investments while insuring the safety of capital and liquidity. It is a fiscally sound position to continue optimization of yield and rebate excess earnings, if necessary.

XIV. Indemnity

The City Manager, Deputy City Manager, Chief Financial Officer, Controller, Cash & Debt Manager, Cash & Debt Analyst, and other Finance Department employees, and the Investment Committee shall be personally indemnified in the event of investment loss provided the Investment Policies are followed.

All participants in the investment process shall seek to act responsibly as custodians of public assets. 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 their ability to make impartial investment decisions.

Anyone involved in investing City funds shall file with the Chief Financial Officer and the Investment Committee a statement disclosing any personal business relationship and any material financial interest in a business organization that handle City of Grand Prairie investments. An investment officer has a personal business relationship with a business organization if:

1. The investment officer owns 10% 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% of the investment officers gross income for the prior year; or
3. The investment officer has acquired from the business organization during the prior year investments with a book value of $2,500 or more for the personal account of the investment officer.

Any investment officer who is related with the second degree by affinity or consanguinity as determined under the Tex. Gov't. Code Ann. Ch. 573 to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship with the City Council and the Texas Ethics Commission.

The standard of prudence to be used by the investment officers shall be the "Prudent Person Rule" as set forth in Tex. Gov't. Code Ann. Sec. 2256.006 and will be applied in the context of managing an overall portfolio: "Investments shall be made with judgment and care under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is take to control adverse developments.

XV. Policy Revisions

The policies will be reviewed and adopted annually by the City Council Finance and Government Committee and City Council. The policies may be amended by recommendation of the City Manager and action (by resolution or minute order, the most recent of which is included as Appendix A) of the City Council.
Investment Policy revisions may become necessary with changes in State law, City needs, the economy, and investment opportunities.