RESOLUTION NO. 4210

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DENISON, TEXAS ADOPTING AN INVESTMENT POLICY FOR FUNDS FOR THE CITY OF DENISON FOR FISCAL YEAR 2025/2026; DESIGNATING THE FINANCE DIRECTOR AS THE PRIMARY INVESTMENT OFFICER; PROVIDING A SAVINGS AND REPEALING CLAUSE; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Chapter 2256 of the Texas Government Code, commonly known as the "Public Funds Investment Act," governs local government investment; and

WHEREAS the Public Funds Investment Act requires annual review of the investment policy for the City of Denison, Texas ("City"); and

WHEREAS the annual adoption of the City's investment policy is intended to replace and supersede all previously adopted financial policies; and

WHEREAS, the City Council had previously adopted an investment policy with substantive changes in Fiscal Years 2005, 2009, 2016, 2018, and 2025; and

WHEREAS, the City Council has reviewed the Investment Policy for Fiscal Year 2025/2026 attached hereto as **Exhibit "A"** and incorporated herein, for compliance with the Public Funds Investment Act and has determined it appropriate to adopt the investment policy as set forth; and

WHEREAS, upon consideration, the City Council finds and determines it to be in the best interests of the City to adopt **Exhibit "A"** as the City's Investment Policy.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DENISON, TEXAS:

Section 1. That the foregoing recitals are hereby adopted and incorporated into this Resolution.

Section 2. That the City Council has reviewed the attached Investment Policy, which contains investment strategies and policies that the Council has determined to be beneficial to the City and hereby adopts the attached Investment Policy set forth in **Exhibit "A."**

Section 3. That the Finance Director is hereby designated as the City's primary investment officer to perform the functions required by the attached policy, and the investment officer is hereby authorized to perform the functions required under the Investment Policy and Chapter 2256 of the Texas Government Code, as amended from time to time.

Section 4. All provisions of any resolution in conflict with this Resolution are hereby repealed to the extent they are in conflict; but such repeal shall not abate any pending action for violation of the repealed resolution, nor shall the repeal prevent an action from being commenced for any violation if occurring prior to the repeal of the resolution. Any remaining portions of said resolutions shall remain in full force and effect.

Section 5. That this Resolution shall take effect immediately upon its passage and approval.

PASSED AND APPROVED this 6th day of October 2025.

ROBERT CRAWLEY, MAYOR

ATTEST:

Christine Wallentine, City Clerk

CITY OF DENISON
Denison
TEXAS
TEXAS 1872

EXHIBIT A
CITY OF DENISON INVESTMENT POLICY FOR FY 2025/2026

CITY OF DENISON, TEXAS
INVESTMENT POLICY

Fiscal Year 2026*

*(Adopted 2003 with updates made in 2005, 2009, 2016, 2018, & 2025)

CITY OF DENISON, TEXAS
INVESTMENT POLICY

PREFACE

It is the policy of the City of Denison (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 which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the City.

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

CITY OF DENISON
INVESTMENT POLICY

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INVESTMENT POLICY

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

2. **INVESTMENT STRATEGY.** The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate of return. The basic and underlying strategy of this program is that all of the City's eligible 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 management of maturities. The strategy also considers the expertise and time constraints of the investment officers. The allowable investment instruments, as defined in Section 6 of this Policy, reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require.

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

   - safety and preservation of principal,
   - maintenance of sufficient liquidity to meet operating needs,
   - achieve a market rate of return on the investment portfolio, and
   - seek at all times to maintain public trust by adhering to the above stated objectives.

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

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

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

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

2.2.3. **Strategy No. 3.** Pursuant to the Public Funds Investment Act (Texas Government Code 2256.001 et seq.), 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 a term of two (2) years, with an option to extend by mutual consent of both

parties. Such renewal or extension of the contract shall be made by the City Council and approved via the adoption of an ordinance or resolution of the City Council.

Duties of the Investment Advisor contracted by the City shall abide by the Prudent Expert Rule, whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived. The City and/or the designated Investment Officer shall have the authority to utilize other City employees or the services of a City approved contractor to aid the Investment officer in the execution of the Officer's duties under Chapter 2256 of the Texas Government Code.

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

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

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

2.2.4.3 Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund. Managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the City's bonds

are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue.

2.2.4.4 Investment strategies for special projects or capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.

2.2.4.5 Market conditions and arbitrage regulations will influence the investment of capital project funds. When market conditions allow, achieving a positive spread to applicable arbitrage yield is the desired objective, although at no time shall the anticipated expenditure schedule be exceeded in an attempt to increase yield.

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

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

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

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

2.2.9. **Strategy No. 9 - Maximizing 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; 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. 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:

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

4.2. **Liquidity.** The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as will provide the liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements, or to otherwise favorably adjust the City's portfolio, in accordance with Section 2.2.5 above.

4.3. **Market Rate-of-Return (Yield).** The City's investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate of return throughout budgetary and economic cycles. The City

will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the rate of annual income return on an investment, expressed as a percentage.

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

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

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

(1) the cost of a control should not exceed the benefits likely to be derived; and,

(2) the valuation of costs and benefits requires estimates and judgments by management.

The Finance Director 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. Commitment of financial and staffing resources in order to maximize total return through active portfolio management shall be the responsibility of the City Council.

5.2 **Prudence.** The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "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." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

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

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

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

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

5.5 **Training.** The treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officers shall attend training in compliance with Chapter 2256 of the Texas Government Code.

- Investment training session not less than once in a two-year period, and receive not less than ten hours of instruction relating to investment responsibilities required under Section 2256.008.

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 a security issuer or backer. 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, and is the exclusive of the City's authorized investments until modified by action of the City Council. 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:

6.1.1. **Obligations of the United States** or its agencies and instrumentalities, including letters of credit of the Federal Home Loan Banks, but excluding mortgage-backed securities.

6.1.2. **Direct obligations** of the State of Texas, or its agencies and instrumentalities.

6.1.3. **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, excluding mortgage-related securities.

6.1.4. **Collateralized Certificates of Deposit.** A certificate of deposit issued by a depository institution that has its main office or a branch office in this state and is:

- guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage backed securities of the nature described in Section 2256.009(b) of the Act; or

- secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of the City.

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

- the investment pool has been authorized by the City Council by ordinance or resolution;
- the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code, as amended from time to time;
- the pool shall furnish the Investment Officer investment transaction confirmations with respect to all investments made with it;
- the pool shall furnish to the Investment Officer monthly reports containing the information required under Section 2256.016(c)(2) of the Texas Government Code;
- the pool is continuously rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least one nationally recognized rating service;
- the pool marks its portfolio to market daily;
- the pool's investment objectives shall be to maintain a stable net asset value of one dollar ($1.00), when rounded and expressed to two decimal places;
- the pool ensures that when 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, the pool takes action to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005; and
- the pool's investment philosophy and strategy are consistent with this Policy.

The City will take all prudent measures consistent with this Policy to liquidate an investment that does not maintain the minimum rating required by this Policy.

6.1.6. **Repurchase Agreements, Reverse Security Repurchase Agreements, Bankers' Acceptances; Commercial Paper**. These investments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests.

- **Repurchase Agreements** Only fully collateralized direct repurchase agreements with the City's Bank Depository are authorized City investments. The repurchase agreement is authorized only if it (1) has a defined termination date; (2) is secured by a combination of cash and obligations as described by Section 2256.009(a)(1) of the Texas Government Code, as amended; (3) requires the securities being purchased or the cash held 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 (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

  Notwithstanding any other law, the term of any Reverse Security Repurchase Agreement shall not exceed ninety (90) days after the date the Reverse Security Repurchase Agreement is delivered. Money received 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.

  Section 1371.059(c) of the Texas Government Code applies to the execution of a repurchase agreement by the City.

- **Bankers' Acceptances** The Bankers' Acceptances is only authorized if it (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 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.

- **Commercial Paper** Commercial Paper is an authorized investment under this subchapter if the commercial paper: (1) has a stated maturity of 365 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.

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

- the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
- the fund provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- complies with Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940; and
- the fund is continuously rated no lower than "AAA" 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.

6.1.8. **Interest-Bearing Banking Deposits**. These investments are authorized for the City to the extent that they are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. Other interest-bearing banking deposits other than those described above are authorized, under the following conditions:

- the funds invested in the banking deposits are invested through:
  (i) a broker with a main office or branch office in this state that the City selects from a list the City Council or designated investment committee of the City adopts; or
  (ii) a depository institution with a main office or branch office in this state that the City selects;
- the broker or depository institution selected above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account;
- the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
- the City appoints as the City's custodian of the banking deposits issued for the City's account:

(i) the depository institution selected by the City Council;
(ii) a custodian pursuant to the Public Funds Collateral Act; or
(iii) a clearing broker dealer registered with the Securities and Exchange Commission.

6.2 **Investment Instruments NOT Authorized.** State law specifically prohibits investment in the following securities:

6.2.1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

6.2.2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

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

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

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

7.1 **Diversification by Maturities.** The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 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. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire City portfolio, including funds at the City's depository bank, shall comprise one pooled fund group, and the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio shall be less than three hundred sixty-five (365) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, may not exceed three (3) years.

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

	Percentage of Portfolio (Maximum)
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pools	100%
Fully Collateralized Certificates of Deposit	100%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Funds	50%

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

8.1 All financial institutions with whom the City does business must supply the following as appropriate: (1) audited financial statements; (2) proof of National Association of Securities Dealers (NASD) certification; (3) proof of state registration; (4) completed broker/dealer questionnaire; (5) certification of having read the City's investment policy signed by a qualified representative of the organization, acknowledging that the organization has

implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

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

8.3 **Selection Criteria** for federally insured financial institutions shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the financial institution must be located within the corporate boundaries of the City. Depositories located outside the City limits, but within the county, may be eligible to bid on investments, provided the financial institution maintains a place of business within the State of Texas and offers within the State the services required by the depository services contract; and the City Council, has adopted a written policy expressly permitting the consideration of applications received by the City from a financial institution that is not doing business within the City, after taking into consideration what is in the best interest of the City in establishing a depository.

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

9. **DELIVERY VERSUS PAYMENT.** It is the policy of the City that all security transactions entered into with the City shall be conducted on a "**DELIVERY VERSUS PAYMENT**" (DVP) basis through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the City. The notification may be oral, but shall be confirmed in writing.

10. **SAFEKEEPING AND COLLATERALIZATION**

10.1 **Safekeeping.** All securities owned by the City shall be held by its safekeeping agent, except the collateral for bank deposits. The collateral for bank deposits will be held in the City's name in a Federal Reserve Bank account, a Federal Home Loan Bank account or a third-party bank, at the City's discretion. Original safekeeping receipts shall be obtained and held by the City. The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits.

10.2 **Collateralization.** 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 depository bank. The market value of the investments securing the deposit of funds shall be at least equal to the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held in the City's name in a segregated account at the Federal Reserve Bank or by an independent third party with whom the City has a current custodial agreement. The agreement is to specify the acceptable investment 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 safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the City in the event the City has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, 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 ownership, e.g., safekeeping 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 the Investment Officer before the transaction is initiated. Release of collateral or substitution of securities must be approved in writing by the Investment Officer.

10.2.1 The City may accept the following securities as collateral for bank deposits (V.T.C.A., Government Code, Section 2256.001, et. seq., formerly Article 842a-2, Section 2, V.T.C.S., as amended);

- FDIC coverage;
- U.S. Government securities;
- State of Texas bonds;
- 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;

- Surety Bond that meets the requirements of the Public Funds Investment Act; or a
- Federal Home Loan Bank Letters of Credit as defined by Chapter 116, Subchapter C of the Local Government Code and by Chapter 726, Acts of the 67th Legislature, Regular Session, 1981 (Article 2529b-1, Vernon's Texas Civil Statutes).

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

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

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

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

11. **INTERNAL CONTROL.** The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error,

misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this Policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the City's established investment policy.

12. **PERFORMANCE.** The City's investment portfolio shall be designed to obtain a market rate of return on investments consistent with risk constraints and cash flow requirements of the City. The benchmark for performance that is appropriate for the City's cash flow cycle will be the "asked" rate on the U. S. Treasury Bill closest to the maturity date of the investment purchased.

13. **REPORTING.** The Finance Director shall submit a signed investment report to Council on a quarterly basis. The report should detail the beginning market value, and any additions and changes to 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 investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

13.1 **Annual Report.** Within sixty (60) days of the end of the fiscal year, Finance Director 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 Council. The reports prepared by the Finance Director 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.

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. The report shall describe in detail the investment position of the City on the date of the report, shall be prepared jointly by all investment officers for the City, and shall be signed by each investment officer of the City. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:

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

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

13.3.3 Additions and changes to the market value during the period;

13.3.4 Fully accrued interest for the reporting period;

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

13.3.6 Listing of investments by maturity date;

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

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

13.3.9 Contain a summary statement of each pooled group fund that states the (1) beginning market value for the reporting period; (2) ending market value for the reporting period; and (3) fully accrued interest for the reporting period;

13.3.10 State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

13.3.11 State the maturity date of each separately invested asset that has a maturity date;

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

13.3.13 State the compliance of the investment portfolio of the City as it relates to (1) the investment strategy expressed in the City's investment policy; and (2) relevant provisions of Chapter 2256 of the Texas Government Code.

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 by the City Council, and shall be adopted by a formal resolution of the City Council.

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Attachment A
INVESTMENT POLICY

GLOSSARY OF TERMS

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

Affinity. Related through marriage.

Agencies. See United States Agency Securities.

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

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

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

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

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

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

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

Consanguinity. Related by blood.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal National Mortgage Association (FNMA or Fannie Mae). FNMA, a federal corporation, is the largest single provider of residential mortgage funds in the United States. It is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

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

Interest-Bearing Banking Deposits. Interest-bearing deposits at a financial institution that are available to the depositor upon the depositor's demand, includes but is not limited to money market deposit accounts.

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

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

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

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

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

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

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

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

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

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

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

Market Value. The 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.

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

Money Market Deposit Accounts. An interest-bearing account at an eligible financial institution that typically pays a higher interest rate than a savings account, and which provides the account holder with limited withdrawing ability.

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

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

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

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

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

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

Portfolio. The collection of securities held by an investor.

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

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

Rate-of-Return. See **Yield**.

Repurchase Agreement (REPO). An investment arrangement in which the holder of a security sells that security to an investor with an agreement to repurchase the security at a fixed price and on a fixed date, or as used in Section 6 of the policy, "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) of the Texas Government Code, as amended, 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.

Reverse Security Repurchase Agreement or Reverse Repurchase Agreement. An investment arrangement by which a security is sold to a third party, such as a bank or broker/dealer, in return for cash with the agreement to repurchase the instrument from the third party at a fixed price and on a fixed date. The cash is then used to purchase additional investments. This type of investment is prohibited in the portfolio, except to the extent used by local government investment pools as authorized in the Policy. See also definition of Repurchase Agreement for the purpose of Section 6 of this Policy.

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

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

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

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

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

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

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

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

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

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

Attachment B
INVESTMENT POLICY

[SAMPLE]

TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Denison, 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 Investor as such terms are used in the Act; 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 or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization:

Firm: _____

Signature _____

Printed Name: _____

Title: _____

Date: _____