

RESOLUTION NO. 002-23

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF HIGHLAND PARK, TEXAS, IN COMPLIANCE WITH CHAPTER 2256 OF THE TEXAS GOVERNMENT CODE, VALIDATING THE REVIEW OF THE STATEMENT OF INVESTMENT POLICIES AS ADOPTED BY THE TOWN OF HIGHLAND PARK.

WHEREAS, Section 2256.005 (e) of the Texas Government Code ("Public Funds Investment Act") requires that the "governing body of an investing entity shall review its investment policy and investment strategies not less than annually;" and

WHEREAS, Section 2256.005 (e) of the Public Funds Investment Act also requires that the "governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies;"

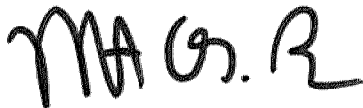
NOW, THEREFORE, BE IT RESOLVED by the Town Council of the Town of Highland Park, Texas ("Town"):

That, the Town's Statement of Investment Policies ("Policies") has been reviewed in accordance with the Public Funds Investment Act, as amended, and is to be used in the administration of the Town's investment activities; and

That, the recommended changes to the Policies comply with the Public Funds Investment Act and Chapter 2257 of the Texas Government Code ("Public Funds Collateral Act"), and have been incorporated into the Policies.

PASSED AND APPROVED on this 7th day of March, 2023.

APPROVED AS TO FORM:



Matthew C.G. Boyle
Town Attorney

APPROVED:



Will C. Beecher
Mayor

ATTEST:



Joanna Mekeal
Town Secretary

TOWN OF HIGHLAND PARK, TEXAS

STATEMENT OF INVESTMENT POLICIES

MISSION STATEMENT

The mission of the Town of Highland Park is to provide personal, caring services in a prompt and efficient manner for our community in order to enhance the quality of life and preserve the heritage that is Highland Park.

Reviewed March, 2023

PREFACE

It is the policy of the Town of Highland Park (hereinafter referred to as “Town”) that after allowing for the anticipated cash flow requirements of the Town 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 Town funds. The Town’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. The Town 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 Town.

The Town is required under Chapter 2256 of the Texas Government Code, also cited as the Public Funds Investment Act (“PFIA”) to adopt a formal written Investment Policy for the investment of public funds. This policy serves to satisfy the statutory requirement of the PFIA to define, adopt and review a formal investment strategy and policy.

This policy is also written to satisfy the requirements of Chapter 2257 of the Texas Government Code, also cited as the Public Funds Collateral Act (“PFCA”), which requires a written policy to regulate collateralized securities held in the name of the Town.

INVESTMENT OFFICER DESIGNATION

The following Town of Highland Park employees whose titles are set forth below are hereby authorized as Investment Officers to negotiate and execute any and all contracts and other documents as necessary to establish the Town of Highland Park investment and financial institution accounts, with the express powers granted to enter into treasury management services agreements as necessary for account transactions, including but not limited to deposit, withdrawal, and transfer via wire and ACH:

Director of Administrative Services and Chief Financial Officer

Deputy Chief Financial Officer

**TOWN OF HIGHLAND PARK
STATEMENT OF INVESTMENT POLICIES**

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INVESTMENT POLICIES

1. **PURPOSE.** The purpose of this Statement of Investment Policies (hereinafter referred to as “Policies”) is to set forth specific investment policy and strategy guidelines for the Town in order to achieve the goals of safety, liquidity, rate of return, and public trust for all investment activities. The Town Council of the Town shall review the investment strategies and policies at least annually and approve it along with any revisions by formal resolution.

2. **INVESTMENT STRATEGIES.** The Town maintains a comprehensive and proactive cash management program which is designed to monitor and control all Town 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 Town’s funds are earning interest. It is the responsibility and obligation of the Town 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 these Policies reflect the avoidance of credit risk. Diversification refers to dividing funds among a variety of investments offering independent returns. This strategy uses local government investment pools and other cash equivalent options to achieve liquidity targets. 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 Town as specified in these Policies (See Section 4.) are listed below, in their order of importance:

- Safety and preservation of principal;
- Maintenance of sufficient liquidity to meet operating needs;
- A market rate of return on the investment portfolio; and
- Public trust.

2.2. **The list of investments authorized** by these Policies 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 Town. 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 Town will consider the following strategies:

2.2.1. **Strategy No. 1.** Maintaining liquidity through the use of local government investment pools, money market mutual funds, and other cash equivalent options, as authorized by these Policies. An investment pool is 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 match those objectives of the Town. Funds are usually available from investment pools on a next-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. The strategy of the Town calls for the use of investment pools as a 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 investments, authorized by these Policies, 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;
- All investments remain within the approved maturity horizon;
- It will assure the Town that it will 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.** Utilizing the services of an independent, third-party investment advisor on a periodic basis that would enable the Town to achieve a competitive rate of return on the funds available for longer term investment.

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

- 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 which will experience minimal volatility during economic cycles.
- 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).
- 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.
- Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.

2.2.5. **Strategy No. 5 – Hold until Maturity.** The strategy of the Town is to maintain sufficient liquidity in its portfolio so that it does not need to sell or redeem an investment prior to maturity. Should it become necessary to sell or redeem an investment prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the Town Administrator must be obtained. Investments may be sold or redeemed prior to maturity by the Director of Administrative Services & Chief Financial Officer (hereinafter referred to as “Director”) at or above their book value at any time, without the consent of the Town Administrator.

2.2.6. **Strategy No. 6 – Pooling of Deposits and Investments.** A majority of the Town's demand deposits will be concentrated with one central or primary depository. This procedure will enhance the Town's ability to pool cash for operational efficiency and investment purposes, and provide more manageable banking relationships. The Town's investment portfolio may also be pooled to augment investment strategy development and implementation. Investment pool earnings will be appropriately allocated to the various, participating Town funds.

2.2.7. **Strategy No. 7 – Primary Depository Bank Relationships.** These Policies shall further seek to maintain good primary depository bank relationships while minimizing the cost of banking services. The Town will seek to maintain a primary depository contract which will be managed to a level that minimizes the cost of the primary depository banking relationship to the Town, while allowing the Town to earn an appropriate return on idle demand deposits. In addition, depositories not holding primary demand deposits of the Town may be eligible for secondary demand accounts or other deposit options.

2.2.8. **Strategy No. 8 – Maximizing Investible Cash Balances.** Procedures shall be established and implemented in order to maximize investible cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

2.2.9. **Strategy No. 9 – Competitive Environment.** It is the policy of the Town to develop a competitive environment for all investment transactions.

Where practical, and at the discretion of the Investment Officer, at least three bids or offers must be solicited for all security and CD transactions. In a situation where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish fair market price of the security. When too few broker/dealers or banks, if any, or in instances where timing is critical, Town Investment Officers may use another authorized investment of similar maturity for evaluation purposes. The quotes may be accepted orally, in writing, electronically, or any combination of these methods, but must be followed by official written confirmation. Town Investment Officers may approve exceptions, on a case-by-case basis, by considering the investment type, maturity date, amount and potential disruptiveness to the Town's investment strategy.

3. **SCOPE.** These Policies shall govern the investment of all financial assets considered to be part of the Town and includes the following funds or fund types: the General Fund, Enterprise Funds, Capital Projects Fund, Debt Service Funds, Internal Service Funds, Special Revenue Funds, and any other funds which have been contractually delegated to the Town for management purposes. The Town may add or delete funds as may be required by law, or for proper accounting procedures. These Policies do not include funds governed by approved trust agreements, or assets administered for the benefit of the Town 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 Town shall be invested in accordance with all applicable Texas statutes, these Policies and any other approved, written administrative procedures. The four objectives of the Town'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 Town. 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 these Policies, by qualifying the financial institutions with whom the Town will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the Town's investments.

4.2. **Liquidity.** The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the Town'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 Town's portfolio, in accordance with Section 2.2.5 above.

4.3. **Market Rate-of-Return (Yield).** The Town'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 Town 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 Town's rate of return objective is secondary to those of safety and liquidity. Portfolio rate of return (yield) is defined as the weighted average yield to maturity, expressed as a percentage.

4.4. **Public Trust.** All participants in the Town's investment program shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction which might involve a conflict of interest or otherwise impair public confidence in the Town's ability to govern effectively. All employees of the Town 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 these Policies, the daily operation and management of the Town's investments are the responsibility of the following persons.

5.1. **Delegation of Authority.** The Director and the Deputy Chief Financial Officer are the Investment Officers, and are authorized to deposit, withdraw, invest, transfer, or manage in any other manner the funds of the Town. Overall management responsibility for the investment program is hereby delegated to the Director, who shall establish written procedures for the operation of the investment program consistent with these Policies. Such procedures shall include explicit delegation of authority to persons responsible for investment activities. No persons may engage in an investment transaction except as provided under the terms of these Policies and the procedures established by the Director. The Director shall establish a system of controls to regulate the activities of subordinate staff members. The system of controls shall be designed to provide

reasonable assurance that assets of the Town 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 shall be designated as the primary Investment Officer for the Town and shall be responsible for investment decisions and activities under the direction of the Town Administrator. The Director may delegate any phase of the investment program to the Deputy Chief Financial Officer. Both the Director and the Deputy Chief Financial Officer are responsible for daily investment activities. However, ultimate responsibility for investment decisions will rest with the Director. Commitment of financial and staffing resources in order to achieve the investment objectives shall be the responsibility of the Town Council.

5.2. **Prudence.** The standard of prudence to be applied by the Investment Officer 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 would 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 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 these Policies.

5.3. **Due Diligence.** An 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.

5.4. **Ethical Standards and Conflicts of Interest.** All Town employees having a direct or indirect role in the investment of Town 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. Investment Officers 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. Any Investment Officer who has a personal business relationship with a depository bank or with a business organization offering to engage in an investment transaction with the Town, as defined in Section 2256.005(i)(1-3) of the PFIA, 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 Town shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Town Council.

5.5. **Quality and Capability of Investment Management.** The Town shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations.

5.6. **Training.** All Investment Officers shall accrue at least ten hours of training relating to the Officer's responsibility under the PFIA within twelve (12) months after assuming duties. Thereafter, eight (8) hours of training must be completed every two years aligned with the Town's fiscal year. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with PFIA. Such training shall be received from an independent source including courses or seminars from the Government Finance Officers Association, the Government Treasurers' Organization of Texas, the Government Finance Officers Association of Texas, the Association of Public Treasurers of the United States and Canada, the Texas Municipal League or any of its affiliates, the American Institute of Certified Public Accountants, the University of North Texas, or the North Central Texas Council of Governments.

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. Interest rate risk is the risk that the value of an investment will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the Town's primary objective, only certain investments are authorized as acceptable investments for the Town. The following list of authorized investments for the Town 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 Town funds.

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

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

6.1.2. **Direct obligations** of the State of Texas, its agencies and instrumentalities or obligations of agencies, counties, cities, and other political subdivisions of this State rated as to investment quality by a nationally recognized investment rating firm of not less than "A" or its equivalent.

6.1.3. **Other obligations**, the principal and interest of 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-related securities.

6.1.4. **Financial Institution Deposits.** A certificate of deposit, or other form of deposit, issued by a state or national bank with a main or branch office in this state, a savings bank

(or savings and loan association) with a main or branch office in this state, or a federal credit union with a main or branch office in this state, and is:

- guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor;
- secured by obligations that are eligible as per the Public Funds Collateral Act and these Policies; or
- placed in accordance with the PFIA.

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 PFIA, provided that:

- the investment pool has been authorized by the Town Council;
- the pool shall have furnished the Town an offering circular containing the information required by Section 2256.016(b) of the PFIA;
- the pool shall furnish the Town investment transaction confirmations with respect to all investments made with it;
- the pool shall furnish to the Town monthly reports containing the information required under Section 2256.016(c)(2) of the PFIA;
- 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); and
- the pool’s investment philosophy and strategy are consistent with these Policies.

6.1.6. Repurchase Agreements, Reverse Repurchase Agreements, Bankers’ Acceptances, and Commercial Paper. These investments are only authorized for the Town to the extent that they are contained in the portfolios of approved public funds investment pools in which the Town invests.

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 Town with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- the fund has a dollar-weighted average portfolio maturity in compliance with regulations;
- 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 "AAA" or an equivalent rating by at least one nationally recognized rating service.

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

6.2. **Investment Instruments NOT Authorized.** The following instruments are eligible for investment by local government according to state law, but they have been intentionally prohibited for the Town by these Policies: mortgage-related obligations, guaranteed investment contracts, options, financial futures contracts, and day trading of long-term securities. In addition to these restricted investments, 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. 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 Town's policy to concentrate its investment portfolio in shorter-term investments in order to limit principal risks caused by change in interest rates. The Town will attempt to match its investments with anticipated cash flow requirements. The Town will not directly invest in maturities more than three (3) years from the date of purchase. However, the above-described obligations, certificates, or agreements may be collateralized using longer dated instruments. The Town 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 Officers so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire Town portfolio including funds at the Town's primary 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 is two hundred seventy (270) days.

Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is currently not 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 (at the time of purchase):

	Percentage of Portfolio (Maximum)
U.S. Treasury Obligations	80%
U.S. Government Agency Securities and Instrumentalities Obligations	80%
Authorized Local Government Investment Pool (per Pool)	75%
Fully Insured or Collateralized Financial Institution Deposits	100%
SEC-Regulated No-Load Money Market Mutual Fund (per Fund)	25%
Municipal Bonds (limited to 5% per issuer)	25%

8. **AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS.**

Financial institutions (federally insured banks) with or through whom the Town invests shall be state or national banks with a main or 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 Town shall include only those authorized by the Town Council. All banking services will be governed by a depository contract acceptable to the Town. In addition, the Director shall maintain a list of security brokers/dealers and investment pools that are authorized by the Town Council.

8.1. **Authorized Broker/Dealers and Financial Institutions Financial Conditions.**

As appropriate, the Director may review the financial condition and registration of an authorized broker/dealer or financial institution. 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 Town shall be required to provide any financial data requested by an Investment Officer.

8.2. **Monitoring Investments.** The Director 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 these Policies. As stated in Section 2256.017 of the PFIA, the Town is not required to liquidate investments that were authorized investments at the time of purchase.

The Town shall take all prudent measures that are consistent with these Policies to liquidate any investment, through the most efficient market available, that does not have or is down-graded to less than the minimum rating stated herein. The Town shall consider the time remaining until maturity, the quality of the investment, and the quality and amounts of any collateral which may

be securing the investment in determining whether to hold the investment until maturity or to redeem the investment.

9. **INVESTMENT POLICIES CERTIFICATION.** All business organizations, as defined by the PFIA (e.g. local government investment pools or discretionary investment management firms), offering to engage in an investment transaction with the Town must supply a certification of having read the Town's Investment Policies 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 Town and the organization except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the Town that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The Town shall not enter into an investment transaction with a business organization prior to receiving the signed certification.

10. **DELIVERY VERSUS PAYMENT.** It is the policy of the Town that all security transactions entered into with the Town shall be conducted on a "**DELIVERY VERSUS PAYMENT**" (DVP) basis. By doing this, Town funds are not released until the Town has received the investment purchased. The notification may be oral, but shall be confirmed in writing.

11. **SAFEKEEPING AND COLLATERALIZATION**

11.1. **Safekeeping.** All securities owned by the Town shall be held by its safekeeping agent. Original safekeeping receipts shall be obtained and held by the Town. The Town shall contract with a bank or banks for the safekeeping of securities owned by the Town as part of its investment portfolio.

11.2. **Collateralization.** Consistent with the requirements of the PFCA, it is the policy of the Town to require full collateralization of all non-insured Town funds on deposit with a depository bank, and a written depository pledge agreement acceptable to the Town. The market value of the investments securing the deposit of funds shall be at least equal to 102% of the amount of the deposits of funds, plus accrued interest, reduced to the extent that the deposits are insured by the FDIC. Securities pledged as collateral shall be held by an independent third party governed by a mutually agreeable 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 custodial agreement must clearly state that the custodial bank is instructed to release collateral securities to the Town in the event the Town has determined that the depository bank has failed to pay on any deposit, or has determined that the funds of the Town are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of pledge, e.g., pledge receipt, must be supplied to the Town and retained by the Town. Any collateral with a maturity over five (5) years must be approved by an Investment

Officer before the transaction is completed. Release of collateral or substitution of securities must be approved in writing by an Investment Officer.

The Town may also accept letters of credit issued by the Federal Home Loan Bank as collateral as long as the value of the letter of credit is equal to 100% of the principal and accrued interest of the uninsured portion of the deposit. The letter of credit should not expire until at least two business days beyond the expected maturity of the deposit or must have a renewal letter of credit in place before the currently held letter of credit expires.

11.2.1. In addition to FDIC coverage, the Town may accept the following as collateral for bank deposits:

- Letters of credit issued by the Federal Home Loan Bank;
- U.S. Government securities;
- U.S. Agency and Instrumentality securities;
- State of Texas bonds; or
- Bonds issued by other Texas governmental entities (Town, 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.

11.2.2. Financial institutions with whom the Town maintains collateralized deposits, shall require the custodial bank to provide monthly, and as requested by the Town, a listing of the collateral pledged to the Town, marked to current market prices (if available). 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 Town and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

11.2.3. **Collateralized Deposits.** Consistent with the requirements of State law, the Town requires all bank deposits to be federally insured or collateralized with eligible instruments. Financial institutions serving as Town depositories will be required to sign a "Depository Agreement" with the Town. The collateralized deposit portion of the Agreement shall define the Town'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 must be executed by the Depository and the Town contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors or the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the Town; and
- the Agreement must be part of the Depository's "official record" continuously since its execution.

12. **INTERNAL CONTROL.** The Director shall establish a system of written internal controls, which shall be reviewed annually by independent auditors, as a function of the annual audit. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. This review will provide assurance of compliance with policies and procedures as specified by these Policies.

13. **REPORTING.** The Investment Officers shall submit a signed quarterly investment report that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent month, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the period.

13.1. **Annual Report.** The Investment Officers 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 Town Administrator and Town Council. The reports prepared by the Investment Officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Town 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 reporting period. This management summary will be prepared in a manner which will allow the Town to ascertain whether investment activities during the reporting period have conformed to these Policies. The report will be prepared jointly and bear the signature of each Investment Officer of the Town and will be provided to the Town 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 beginning and ending book and market value of securities for the period. Market value shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;

13.2.3. Additions and changes to the market value during the period;

13.2.4. Fully accrued interest for the reporting period;

13.2.5. Average weighted yield to maturity of the portfolio as compared to applicable benchmarks;

13.2.6. Listing of investments by maturity date;

13.2.7. Statement of compliance of the Town's investment portfolio with State Law and the investment strategy and policy approved by the Town Council; and

13.2.8. Market yield benchmark comparison of the Texas Local Government Investment Pool (TexPool) yield at report date.

14. **STATEMENT OF INVESTMENT POLICIES ADOPTION AND AMENDMENT.**
The Town's Statement of Investment Policies shall be adopted and amended by resolution of the Town Council only. The Town'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 Town. The Town Council shall adopt a resolution stating that it has reviewed the Statement of Investment Policies and that the resolution of the Town Council shall record any changes made.

Attachment A GLOSSARY

Accretion: Accretion is the accumulation of gains an investor expects to receive after purchasing a bond at a discount and holding until maturity.

Accrued Interest: Term designating the interest due on a bond or other fixed income security that must be paid by the buyer of a security to its seller.

Agency Obligation: A security, almost always debt, issued by a corporation sponsored by the U.S. Government. Examples: bonds of the Tennessee Valley Authority.

Appreciation: Appreciation, in general terms, is an increase in the value of an asset over time.

Average Life. The average life is the length of time the principal of a debt issue is expected to be outstanding.

Basel III: It is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.

Basis Points (BPS): Basis points (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Benchmark: A benchmark is a standard against which the performance of a security, mutual fund or investment manager can be measured.

Bid: The price offered by a buyer of securities – when you are selling securities, you ask for a bid.

Bond: A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

Broker: A broker brings buyers and sellers together for a commission.

Bullet Bond: A bullet bond is a debt instrument whose entire principal value is paid all at once on the maturity date, as opposed to amortizing the bond over its lifetime.

Callable Bond: A callable bond is a bond that the issuer may redeem before it reaches the stated maturity date. In essence, a callable bond allows the issuing company to pay off their debt early.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate.

Collateral: Evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a financial institution to secure deposits of public monies.

Confirmation: Commonly called a “confirm.” The confirmation is a notice to a customer that payment is due on a purchase, or that net proceeds are available on a sale of securities. Federal securities law requires that a confirmation be sent promptly following each purchase and sale.

Conflict of Interest: Term used to describe a financial situation where a person prejudicially places personal affairs before those of constituents that the person is supposed to serve or represent.

Coupon: (a) The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Current Maturity: Used to designate the remaining lifetime of an already outstanding bond.

Custodial Account: A custodial account can mean any account maintained by a fiduciarily responsible party on behalf of a beneficiary. A fiduciary is bound ethically and legally to act on the best behalf of another's interests.

Custodian: A custodian is a financial institution that holds assets pledged against a loan or collateralized deposit. A custodian holds securities and other assets in electronic or physical form.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment: Delivery of securities first, with an exchange of money for the securities after delivery.

Discount: The difference between the cost price of a security and its maturity value when quoted at lower than face value. A security selling below original offering price shortly after sale also is 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. Example: U.S. Treasury Bills.

Discount Yield: Measurement of return that computes interest on face value of security rather than on the dollar amount invested. Used in figuring yield on U.S. Treasury Bills.

Diversification: Dividing investment funds among a variety of investments, maturities and providers offering independent returns.

Duration: Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Earnings Credit Rate (ECR): The earnings credit rate (ECR) is a calculation of credit that a financial institution allocates on customer deposits. Earnings Credits only offset service charges. The earnings credit rate is often correlated with the U.S. Treasury bill (T-bill) rate.

Face Value: The dollar amount that appears on the face of the bond or security. It is the dollar amount the issuer promises to pay to the holder at maturity. Also called par value.

Fair Value: In investing, it refers to an asset's sale price agreed upon by a willing buyer and seller, assuming both parties are knowledgeable and enter the transaction freely.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per depositor.

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

Federal Farm Credit Bank (FFCB): Fiscal agent for the Farm Credit System, a public government sponsored enterprise (GSE) created in 1916 to lend to agricultural and rural America. Funds for loans are obtained through the issuance of Farm Credit Debt Securities.

Federal Home Loan Bank (FHLB): Government sponsored wholesale banks (currently 11 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLB is to liquefy the housing and other assets of its members who must purchase stock in their District Bank.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): Government sponsored enterprise (GSE) created in 1970 to expand the secondary market for mortgages in the US. Along with other GSEs, Freddie Mac buys mortgages on the secondary market, pools them, and sells them as a mortgage-backed security to investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases.

Federal National Mortgage Association (FNMA or Fannie Mae): FNMA is a government sponsored enterprise (GSE). It is the largest single provider of residential mortgage funds in the United States. The corporation purchases and pools into securities a variety of adjustable and fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of the seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money supply.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington D.C., 12 regional banks and thousands of financial institutions that are members of the system.

Financial Assets: Cash and other assets that, in the normal course of operations, will become cash.

Financial Industry Regulatory Authority (FINRA): It is an independent, non-governmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States.

Government National Mortgage Association (GNMA or Ginnie Mae): A federal agency that purchases and pools as securities FHA or VA mortgages.

Government-sponsored Enterprise: A government-sponsored enterprise is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy.

Interest: Interest is the charge for the privilege of borrowing money, typically expressed as annual percentage rate (APR).

Interest Rate: The interest rate is the amount a lender charges for the use of assets expressed as a percentage of the principal. The interest rate is typically noted on an annual basis known as the annual percentage rate (APR).

Irrevocable Letter of Credit (ILOC): An irrevocable letter of credit is an official correspondence from a financial institution that guarantees payment for goods or services being purchased by the individual or entity, referred to as the applicant, that requests the letter of credit from an issuing institution.

Liquidity: A liquid assets is one that can be converted easily and rapidly into cash without a substantial loss of value.

Local Government Investment Pool (LGIP): An entity created under the Public Funds Investment Act to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are (1) preservation and safety of principal, (2) liquidity, and (3) yield.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions.

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

Money Market: The market in which short-term debt instruments (bills, commercial paper, etc.) with a one-year maturity or less, and often 30-days or less, are issued and traded.

Offer: The price quoted by a seller of securities.

Overnight Repo: A repurchase agreement with expiration set for the following business day.

Par Value: The dollar amount that appears on the face of the debt instrument. It is the dollar amount the issuer promises to pay to the holder at maturity. Also, called face value.

Portfolio: Collection of investments held by an investor.

Primary Dealer: A designation given by the Federal Reserve System to financial institutions or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions.

Principal Cost: The cost to purchase the face amount (par value) of a debt security.

Quote: A quote is the last price at which a security or commodity traded, meaning the most recent price to which a buyer and seller agreed and at which some amount of the asset was transacted. The bid or ask quotes are the most current prices and quantities at which the shares can be bought or sold.

Rate of Return: The yield obtainable on a security based on its purchase price.

Repurchase Agreement (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

Safekeeping: A service to customers rendered by financial institutions whereby securities and valuables of all types and descriptions are held by the institution.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Secured Overnight Financing Rate (SOFR): SOFR is the average rate at which institutions can borrow US dollars overnight while posting US Treasury bonds as collateral.

Securities and Exchange Commission: Agency created by Congress to protect investors in security related transactions by administering securities legislation.

Sell: To transfer ownership for a monetary consideration. The term is used in conjunction with the disposition of stocks, bonds, or other financial assets.

Structured Notes: Notes issued by Government Sponsored Enterprises (FFCB, FHLB, FHLMC, FNMA, etc.) and Corporations that have imbedded options (e.g.: call features, step-up coupons, floating rate coupons, derivative based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon bearing U.S. Treasury Securities issued as direct obligations of the U. S. Treasury and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Treasury and having initial maturities from two to ten years.

Treasury STRIPS: Treasury STRIPS are fixed-income securities that are sold at a significant discount to face value, but don't offer interest payments. STRIPS, which is an acronym for Separate Trading of Registered Interest and Principal of Securities, are zero-coupon bonds that come about when the bond's coupons are separated from the par value of the bond or note.

Weighted Average Maturity (WAM): Weighted average maturity is the weighted average amount of time until the securities in a portfolio mature.

Yield Spread: A yield spread is the difference between yields on differing debt instruments of varying maturities, credit ratings and risk, calculated by deducting the yield of one instrument from another.

Yield to Call (YTC): Yield to call is a financial term that refers to the return an investment holder receives if the security is called/redeemed prior to its maturity date.

Yield to Maturity (YTM): Yield to maturity is the annualized total return anticipated on a security if the instrument is held until it matures.

Attachment B
Authorized Broker/Dealers

FHN Financial
Multi-Bank Securities
Samco Capital Markets
Wells Fargo Securities
