

RESOLUTION NO. 015-18

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 (the "Town"):

Section 1. That, the Town's Statement of Investment Policies (the "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.

Section 2. 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 10th day of December, 2018.

APPROVED AS TO FORM:



Matthew C.G. Boyle
Town Attorney

APPROVED:



Margo Goodwin
Mayor

ATTEST:



Gayle Kirby
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 December, 2018

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.

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

TABLE OF CONTENTS

SECTION #	SECTION TITLE
1.	Purpose
2.	Investment Strategies
3.	Scope
4.	Investment Objectives
5.	Investment Responsibility
6.	Authorized Investments
7.	Diversification
8.	Authorized Financial Dealers and Institutions
9.	Investment Policies Certification
10.	Delivery Versus Payment
11.	Safekeeping and Collateralization
12.	Internal Control
13.	Reporting
14.	Investment Policies Adoption and Amendment

Attachments:

- A. Certification of Business Organization Sample Form
- B. Authorized Broker/Dealers

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 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 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 Officials 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 officials 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 Town Administrator, the Director and the Controller are the Investment Officers, and 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. All persons involved in investment activities will be referred to in these Policies as "Investment Officials." 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 Investment Officials. 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 Controller. Both the Director and the Controller 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 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 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. All Investment Officials involved in investment transactions will be bonded.

5.4. **Ethical Standards and Conflicts of Interest.** All Town Investment Officials 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 Officials 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 attend 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. Such training from an independent source shall be endorsed by the Government Finance Officers Association, the Government Treasurers' Organization of Texas, the Association of Public Treasurers – United States & 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 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 of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully

guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, but excluding mortgage-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 or its successor or the National Credit Union Share Insurance Fund 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 Officer 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 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 <u>(Maximum)</u>
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.

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. However, 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 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.

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 reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (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. The total value of eligible securities to secure the Town's deposits, inclusive of certificates of deposit, must be in an amount of 102% of the total amount of deposits. The collateral amounts are increased by the amount of any accrued interest and reduced to the extent the deposits are insured by the Federal Deposit Insurance Corporation.

11.2.3. 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.

11.2.4. **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. State the account or fund or pooled group for which each individual investment was acquired;

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

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

13.2.10. 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
EXAMPLE

TOWN OF HIGHLAND PARK, TEXAS
Investment Policies

TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the Town of Highland Park, Texas (the "Town") 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 Town 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 Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policies furnished by the Town; 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 Town that are not authorized by the Town's Investment Policies, 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.

Qualified Representative of Business Organization

Firm: _____

Signature _____

Printed Name: _____

Title: _____

Date: _____

Attachment B
Authorized Broker/Dealers

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