



CITY OF FORNEY, TEXAS

INVESTMENT POLICY

I. INTRODUCTION

The purpose of this Policy is to set specific investment policy and strategy guidelines for the City of Forney in order to achieve the goals of safety, liquidity, yield, and diversification for all investment activity. In accordance with state statute, the City Council of the City of Forney shall review its investment strategies and policy no less than annually. This Policy satisfies the statutory requirement of Texas Government Code Chapter 2256, the Public Funds Investment Act (the "Act").

II. SCOPE

This investment policy applies to all financial assets of the City of Forney. These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Debt Service and Debt Reserve Funds
- Capital Projects Funds
- Enterprise Funds

III. OBJECTIVES

The City of Forney shall manage and invest its cash and assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield. Safety of the principal is the primary objective. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets. Cash management is the process of managing monies in order to insure maximum cash availability and reasonable yield on short-term investments.

Safety

The primary objective of the City's investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they be from security defaults, safekeeping, or erosion of market value.

Liquidity

The City's investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintain additional liquidity for unexpected liabilities.

Diversification

The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

Yield

The benchmark for the City's portfolio shall be the one-year U.S. Treasury, designated for its comparability to the City's expected average cash flow pattern. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

IV. INVESTMENT STRATEGY

The City of Forney maintains one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio:

- A. The investment strategy for operating, enterprise and special revenue funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility. This may be accomplished by purchasing high quality, short- to intermediate-term maturity securities (0-5 years) which will complement each other in a laddered maturity structure permitting some extension for yield enhancement. The maximum dollar weighted average maturity of two years or less will be calculated using the stated final maturity date of each security.
- B. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.
- C. The investment strategy for debt service reserve funds shall have as its primary objective the ability to generate a revenue stream to the debt service funds from high quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. The potential for loss shall be further controlled through the purchase of securities within the desired maturity range.
- D. The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched and provide

adequate investment liquidity. At least 10% total liquidity is planned to provide flexibility and for unanticipated project outlays. The stated final maturity dates of securities held may not exceed the estimated project completion date.

The City of Forney intends to match investments with the projected cash flow analysis and liquidity needs of the City. In no case will the average maturity of the portfolio exceed two years. The maximum final stated maturity of any investment shall not exceed five years.

The City shall pursue conservative portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade but the strategy will be primarily buy-and-hold. The investment officer will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

V. RESPONSIBILITY AND CONTROL

Investment Officer(s)

The City Manager and Director of Finance are designated by Council resolution as the Investment Officers of the City responsible for investment decisions and activities. Other Investment Officers may be so designated. The City may further contract with a registered investment advisor to advise in the management of the City's portfolio. No person may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures.

All investment officers shall attend at least ten (10) hours of training provided by a City approved independent source, in accordance with the Act, within 12 months after assuming investment duties and shall attend eight hours of training every two successive fiscal years beginning at the first day of the fiscal year.

Internal Controls

The Investment Officers are responsible for establishing and maintaining an internal control structure designed to reasonably assure that assets of the City are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and, the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Written confirmation for all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

The external auditor shall provide an annual independent review of quarterly investment reports to assure compliance with state law, policies and procedures.

The Investment Officer or Adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Adviser shall notify the City Manager of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within one week after the loss of the required rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

The Investment Officer(s) or Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer shall immediately liquidate any brokered CD which is above the FDIC insurance level.

VI. PRUDENCE

The standard of prudence to be applied to all City investments 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 an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be held responsible, but not personally liable for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

VII. CONFLICTS OF INTEREST

Investment Officers and city staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager any personal business with or material financial interests in financial institutions that conduct business with the City.

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that

personal business interest to the City Council and the Texas Ethics Commission. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a like statement disclosing that relationship.

VIII.AUTHORIZED INVESTMENTS

Assets of the City of Forney may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the City Council. At least three competitive offers or bids are required for all individual security purchases and sales (excluding transactions with money market mutual funds, local government investment pools and when issued securities, which are deemed to be made at prevailing market rates).

- A. Obligations of the United States Government, its agencies and instrumentalities with a maximum stated maturity of five years to exclude mortgage-backed securities
- B. Fully insured or collateralized depository certificates of deposit of banks doing business in Texas, with a maximum maturity of five years guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured in accordance with this Policy and with a market value not less than the 102% of the amount of the certificates.
- C. Fully FDIC insured *brokered* certificate of deposit securities in any US state delivered versus payment to the City's safekeeping depository with a maximum maturity of one year. Before purchase, the Investment Officer or Adviser must verify the FDIC status of the bank on www.fdic.gov to assure that the bank is FDIC insured.
- D. Fully collateralized, direct repurchase agreements purchased through a primary government securities dealer, as defined by the Federal Reserve with a maximum maturity of six months. A Bond Market Association Master Repurchase Agreement and independent third party safekeeping are required. A flex repurchase agreement used for bond funds may exceed two years but must match the expected expenditure schedule of the bonds.
- E. AAA-rated, constant-dollar Local Government Investment Pools as defined by the Act and authorized by City Council which strive to maintain a \$1 net asset value
- F. AAA-rated, SEC registered money market mutual funds in compliance with the SEC Rule 2a-7 which strive to maintain a \$1 net asset value, as defined by the Act.
- G. Obligations of state and local governments in the US with a minimum A rating from a nationally recognized rating agency with a stated maturity not to exceed three years.
- H. A1/P1 commercial paper rated by two nationally recognized rating agencies with a maximum maturity of 270 days.
- I. Fully insured or collateralized interest bearing accounts in any bank in Texas.

Delivery versus Payment

All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the City’s approved custodian. The custodian shall provide the City proof of ownership or claim by an original safekeeping receipt delivered to the City.

Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification. The maximum limits for diversification will be:

	<u>% of Portfolio</u>
US Obligations	90%
US Agencies/Instrumentalities	80%
Certificates of Deposit	40%
Municipal & State Obligations	40%
Repurchase Agreements	50%
Flex in CIP Funds	100%
Local Government Investment Pools	100%
Money Market Funds	100%
Commercial Paper	25%

IX.REPORTING

Quarterly Reporting

The Investment Officers shall submit a signed quarterly investment report to Council in accordance with the Act. The reports shall summarize investment strategies employed in the most recent quarter and fully describe investment securities, maturities, risk characteristics, and investment return for the quarter. The report will include the following:

- A full description of individual securities held at the end of the reporting period based on amortized value,
- Unrealized gains or losses,
- Overall change in market value during the period as a measure of volatility,
- Weighted average yield of the portfolio and its applicable benchmarks,
- Earnings for the period,
- Analysis of the total portfolio by market sector and maturity, and
- Statement of compliance of the investment portfolio with the Act and the Investment Policy of the City.

Market prices for the calculation of market value will be obtained from independent sources. Mark-to-market pricing will be done at least monthly.

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X.FINANCIAL COUNTER-PARTIES

City Depository

At least every five years a City Depository shall be selected through a formal request for proposal (RFP) process in accordance with the Texas Government Code 105.017. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered.

Security Broker/Dealers

All broker/dealers who desire to transact business with the City must supply the following documents will be maintained by Finance.

- Financial Industry Regulatory Authority (FINRA) certification and CRD #
- proof of Texas State Securities registration
- annual audited financial statements

A copy of the City Investment Policy shall be sent to each broker/dealer when material changes are made to the policy.

A list of qualified broker/dealers will be reviewed, revised and adopted at least annually by the City Council or a Council appointed committee.

Each pool approved by the Council must be provided a copy of the current Investment Policy and provide a written certification to a review stating understanding of the Policy and that controls are in place to assure only Policy approved investments will be sold to the City.

XI. COLLATERAL, SAFEKEEPING AND CUSTODY

Time and Demand Pledged Collateral

All City time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the depository at 102% of market value of principal and accrued interest on the deposits. The bank shall review collateral at least weekly to assure that the market value of the pledged securities is maintained at 102% or more.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian (with the exception of the Federal Reserve as Custodian).

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

Authorized Collateral

The City shall accept only the following securities as collateral for time and demand deposits or repurchase agreements:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest including CMO which pass the *bank test*.
- C. Obligations, the principal and interest on which, are guaranteed or insured by the State of Texas.
- D. Obligations of other states or of a county, city or other political subdivision of a state having been rated as investment grade (investment rating no less than "A" or its equivalent) by two nationally recognized rating agencies.
- E. Letters of Credit of the FHLB. Preference will be given to pledged securities rather than letters of credit.

XII. INVESTMENT POLICY ADOPTION

The City of Forney Investment Policy and investment strategies shall be reviewed and adopted by resolution of the City Council at least annually. The approving resolution must include the changes made to the Policy.