



City of Jacksonville, Texas

INVESTMENT

POLICY

# PREFACE

"A public office is a public trust."

Charles Sumner, 1872

If a public office is a public trust, then the trust must be administered properly. Public funds are acquired by governments largely through involuntary payments, particularly through taxation. In a modern democratic society, public officials are obligated to manage these funds in a disciplined manner.

In most cases, laws govern the investment process. Laws alone however cannot compel public officials to a series of actions that assure the public's best interests. The actions of public officials responsible for investing public funds must be guided by knowledge, skills, systems, policies, procedures and confidence that can be described only as professional discipline.

It is the policy of the City of Jacksonville that, giving due regard to safety and risk of investments, all available funds shall be invested in conformance with these legal and administrative guidelines, and, to the maximum extent possible, at the highest rates obtainable at the time of the investment.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds. Investment income will be used in a manner that will best serve the interest of the City of Jacksonville.

The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

# INVESTMENT POLICY

## Contents

PURPOSE AND OBJECTIVES.....	5
Purpose .....	5
Objectives .....	5
Safety .....	5
Liquidity.....	6
Public Trust .....	6
Yield (Optimization of Investment Income).....	6
SCOPE.....	6
RESPONSIBILITY AND CONTROL.....	6
Delegation of Authority .....	6
Quality and Capability of Investment Management.....	7
Training Requirements.....	7
Management and Internal Controls.....	7
Prudence .....	8
Indemnification.....	8
Ethics and Conflicts of Interest .....	8
SUITABLE AND AUTHORIZED INVESTMENTS .....	9
Authorized Investments.....	9
Unauthorized Investments .....	11
INVESTMENT PARAMETERS .....	12
Diversification .....	12
Investment Type .....	12
INVESTMENT PROCEDURES .....	13
Approval of Broker/Dealers .....	13
Investment Transactions.....	13
Investment Reporting .....	14
Marking to Market.....	14
CUSTODIAL CREDIT RISK MANAGEMENT.....	15
Safekeeping and Custodial Agreements .....	15
Collateral Policy.....	15

ARBITRAGE ..... 16  
DEPOSITORIES ..... 17  
INVESTMENT POLICY ADOPTION ..... 17  
APPENDIX ..... 18  
    APPROVED LIST OF BROKERS/DEALERS, BANKS AND LOCAL GOVERNMENT INVESTMENT POOLS..... 19  
    POLICY REVIEW CERTIFICATION..... 20

## PURPOSE AND OBJECTIVES

### Purpose

The purpose of this document is to set forth the specific investment policy and strategy guidelines for the City of Jacksonville. All investment activity shall be consistent with Texas law as defined in Government Code 10, Chapter 2256, known as the Public Funds Investment Act (the Act), and local law.

The City is required under the Public Funds Investment Act, Section 5, to adopt a formal written Investment Policy regarding the investment of its funds and funds under its control. This policy is to be adopted annually to meet the requirements of the Act. The Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure the effective and judicious management of the City's funds.

### Objectives

It is the policy of the City of Jacksonville that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification, and yield, expressed as optimization of investment income. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

An aggressive cash management program and investment policy will be pursued by the Investment Officer to take advantage of investment interest as viable and material revenue to all operating and capital funds. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and maximum investment income on short-term investments of idle cash. The City's portfolio shall be designed and managed in a manner responsive to the public trust. Income from investments will be used in a manner that will best serve the interests of the City of Jacksonville.

### Safety

Safety of invested principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- **Credit Risk and Concentration of Credit Risk**- The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, and concentration of credit risk, the risk of loss attributed to the magnitude of investment in a single issuer, by:
  - Limiting investments to the safest types of investments,
  - Pre-qualifying the financial institutions and broker/dealers with which the City will do business, and
  - Diversifying the investment portfolio to minimize potential losses on individual issuers.
  
- **Interest Rate Risk**- The City will manage the risk that the investment income and the market value of investments in the portfolio will fall due to changes in the general interest rates by:
  - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations. From time to time, securities may be purchased at a premium or traded for other securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes to achieve optimal

investment return, provided any of the following occurs with respect to the replacement security:

- The yield has been increased, or
- The maturity has been reduced or lengthened, or
- The quality of the investment has been improved.
- Investing operating funds primarily in certificates of deposit, shorter- term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds,
- Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time, and
- Limiting the maximum weighted average maturity of the investment portfolio to 3 years.

### Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity.

### Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public trust in the City's ability to govern effectively.

### Yield (Optimization of Investment Income)

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

## SCOPE

This investment policy applies to all financial assets of the City and any new funds created unless specifically exempted by the City Council and this Policy.

The City will consolidate cash balances from all funds with the exception of bond proceeds to optimize investment income. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

## RESPONSIBILITY AND CONTROL

### Delegation of Authority

This Investment Policy and the outlining of investment practices and authorities is compiled in accordance with the Public Funds Investment Act, which requires the adoption of rules governing investment policies and strategies and the designation of an Investment Officer. Collateral requirements

are created in accordance with the Public Funds Collateral Act (Texas Government Code 10, Chapter 2257).

Ultimate responsibility and authority for all investment transactions and cash management reside with the City Manager and the City's Director of Finance. The Director of Finance is also responsible for considering the quality and capability of staff to be involved in investment management and procedures. The Director of Finance may delegate responsibility for the day to day investment activities to other qualified staff members. These staff members will be termed Investment Officers of the City. The Director of Finance will be designated the Primary Investment Officer to conduct daily investment activity and prepare required investment reports. Investment Officers will not conduct any investment or banking activities involving City funds until a resolution or ordinance giving them authority to do so has been approved by the City Council of the City of Jacksonville. All participants in the investment process shall seek to act responsibly as custodians of public trust.

### Quality and Capability of Investment Management

The City shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act.

### Training Requirements

In accordance with the Public Funds Investment Act, all authorized Investment Officers shall attend an investment training session not less than once each state fiscal biennium and shall receive not less than ten hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least ten hours of instruction within twelve months of taking over or assuming duties and attend an investment training session not less than once in a two year period that begins on the first day of the local government's fiscal year and consists of the two consecutive fiscal years after that date. The training shall be provided by an independent source. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include: a professional organization, an institution of higher education, or any other sponsor certified to provide such training.

### Management and Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure the City's assets are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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.

Accordingly, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Minimize risk of collusion
- Separation of transactions authority from accounting and record keeping

- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation for telephone (voice) transactions for investments and wire transfers
- Development of a wire transfer agreement with the depository bank or third party custodian

### Prudence

The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.” It should be noted that, in a diversified portfolio, occasional losses are inevitable and must be considered within the context of the overall portfolio’s return.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall take into consideration the investment of all funds, or funds under the City’s control, over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the written investment policy of the City.

### Indemnification

The Investment Officer, acting in accordance with written 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 appropriate action is taken to control the effects of such adverse developments.

The City shall provide for the defense and indemnification of any Investment Officer who is made party to any suit or proceeding, other than by actions of the City, or against whom a claim is asserted by reasons of their actions taken within the scope of their service as Investment Officers. Such indemnity shall extend to judgments, fines, and amounts paid in settlement of any such claim, suit or proceeding, including any appeal thereof. This protection shall extend only to Officers who have acted in good faith and in a manner which they reasonably believe to be in, or not opposed to, the best interests of the City.

### Ethics and Conflicts of Interest

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 should disclose to the City Manager any material personal financial investments in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City’s portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to the timing of purchases and sales.

An Investment Officer of the City who has a personal business relationship, as defined by the Public Funds Investment Act of 1997, Section 2256.005 (i), with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an

investment to the City shall file a statement disclosing that relationship. A disclosure statement required under this section must be filed with the Texas Ethics Commission and the governing body of the City.

## SUITABLE AND AUTHORIZED INVESTMENTS

The City's portfolio investment strategy seeks to match investment maturities with cash flow requirements for the portion of the portfolio where maturity dates can be matched with cash flow requirements and investments are able to be purchased with the intention of being held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of Principal
- Cash flow needs of the City require that the investment be liquidated
- An investment can be liquidated prior to maturity in the event that the gain and, or, overall benefit from selling and reinvesting the security is greater than the benefit that would be realized if the security continued to be held to maturity. This will occur primarily in the core portion of the city's portfolio that is available for longer term investment.

City funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of Government Code 10 (Public Funds Investment Act). Investments of City funds in any instrument or security not authorized for investment under the Act is strictly prohibited. The City will not be required to liquidate an investment that becomes unauthorized, for reasons other than loss of rating, subsequent to its purchase. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

### Authorized Investments

1. Obligations of the United States, its agencies, and instrumentalities
2. Direct Obligations of the State of Texas or its agencies
3. Collateralized Mortgage Obligations ("CMOs") directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, backed by the full faith and credit of, this state 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
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality of not less than A or its equivalent by a nationally recognized investment rating firm
6. Certificates of deposit issued by a depository institution as permitted by Texas Public Funds Investment Act section 2256.010. Certificates of deposit must be guaranteed or insured by either the Federal Deposit Insurance Corporation or its successor, and secured by obligations in

a manner and amount as provided by law or the National Credit Union Administration or its successor, and secured by obligations in a manner and amount as provided by law

7. Fully Collateralized Repurchase Agreements that are structured in compliance with the Public Funds Investment Act. A flexible repurchase agreement can be utilized for the investment of bond proceeds to meet projected cash outflows. Repurchase agreements must be: secured by a combination of cash and obligations of the United States or its agencies and instrumentalities; pledged to the City or held in the City's name; deposited at the same time the investment is made; and have a defined termination date. Flexible repurchase agreements (Flex-Repос) must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or financial institutions doing business in this state. Flex-Repос may be utilized on new bond issues as deemed necessary and advantageous to the City. Repurchase Agreements will only be executed with counterparties that have signed a TBMA Tri-Party Repurchase Agreement with the City.

8. Commercial Paper

- a. Commercial Paper is an authorized investment of this policy if the commercial paper:
  - i. Has a stated maturity of 270 days or fewer from the date of issuance; and
  - ii. Is rated not less than A-1 or P-1 or an equivalent by at least:
    - 1. Two nationally recognized credit rating agencies; or
    - 2. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

9. Mutual Funds

- a. No-load Money Market Mutual Funds are acceptable investments provided they are registered and regulated by the Securities and Exchange Commission, have a dollar-weighted average stated maturity of 90 days or less, and provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940.
- b. No-load Mutual Funds are acceptable investments provided they are regulated by the Securities and Exchange Commission, have an average weighted maturity of less than two years, are invested exclusively in obligations as expressed in Section 2256, subchapter A, are continuously rated not less than AAA or its equivalent by at least one nationally recognized credit rating agency, and conform to all requirements under the Public Funds Investment Act relating to the eligibility of investment pools to receive and invest funds of investing entities.

10. Investment Pools

- a. Investment pools must provide the Investment Officer with an offering circular or other similar disclosure instrument that contains specific and detailed information required by the Act. Additionally, the pool shall provide transaction confirmations, detailed monthly transaction summaries, and monthly performance reports to the Investment Officer. The specific requirements for authorized investment pools are detailed in the Public Funds Investment Act, Subchapter A, Section 2256.016. Authorized pools must maintain credit ratings no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service. An investment pool shall invest the funds it received from entities in authorized investments permitted by the Public Funds Investment Act. An Investment pool created to operate as a money market mutual fund must maintain a maximum weighted average maturity not to exceed 90 days and maintain a net asset value of \$1 per share with the market value per share between .995 and 1.005. Any investment pool that does not meet the requirements of one that is created to function as a money market mutual fund must maintain a maximum average dollar weighted maturity that does not exceed 365 days (or 366 days in the case of leap year) and must provide a fixed interest rate and a fixed maturity term for each pool position.
- b. In order to participate in an investment pool, the City Council must approve by resolution or ordinance a Participation Agreement or Inter-local Agreement to be executed with the State or Inter-local authority responsible for the investment pool. This agreement will specify the City's authorized representatives and the standard delivery instructions for fund transfers and information reports.

### Unauthorized Investments

The following investment instruments are specifically not authorized:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (Collateralized Mortgage Obligations (CMO) - derived Interest Only Strips),
2. Obligations whose payment represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (CMO-derived Principal Only Strips),
3. Collateralized Mortgage Obligations that have a stated final maturity date of greater than ten (10) years,
4. Collateralized Mortgage Obligations whose interest rates are determined by an index that adjusts opposite to the changes in a market index (Inverse Floaters),
5. Certificates of Deposit and other investments issued by Savings and Loans, and
6. Guaranteed Investment Contracts.

## INVESTMENT PARAMETERS

### Diversification

Diversification of funds and investments must be accompanied by competitive bidding of all investments to assure diversification among securities dealers. Diversification is necessary to reduce the portfolio's credit and market risks, while helping the portfolio attain a market rate of return. The City shall seek to conduct its investment transactions with several competing, reputable investment security dealers and brokers to protect principal while optimizing interest opportunities. To assure diversification of financial institutions, business involving two party transactions (i.e. repurchase agreements) with any one investment broker should be limited to thirty percent (30%) of the par value of the total portfolio for any reporting period. In this way, a bankruptcy, receivership, or legal action would not immobilize the City's ability to meet payroll, operating, or other expenses.

It is the policy of the City to diversify its investment portfolio so that reliance on any one issuer or broker will not place an undue financial burden on the City.

### Investment Type

Depositories for Municipal Funds (Chapter 105, Local Government Code), the Public Funds Investment Act (Chapter 10, Government Code), authorize depositories and define allowable investment programs for municipal governments.

It is the policy of the City to purchase only securities authorized by both the Public Funds Investment Act and the City's investment policy. Market risk shall be minimized by diversification of investment types.

The following limits, by instrument, are established for the City's total portfolio:

- Repurchase Agreements 50%
- Certificates of Deposit 30%
- U.S. Treasury Notes/Bonds/Bills 100%
- U.S. Agencies and Instrumentalities 75%
- Commercial paper 10%
- State and Local Bonds and Notes 20%
- Money Market Mutual Funds 80%
- Mutual Funds 15%
- Investment Pools 100%

The maximum maturity of any given investment in the portfolio shall not exceed a final, stated maturity of 5 years from the date of purchase and overall portfolio weighted average maturity is not to exceed 3 years.

Reductions in the size of the portfolio due to cash outflows may cause an investment type to exceed the maximum percentage allowed for that investment type. In such situations, securities will be sold to reduce the percentage to allowable levels only if no loss will be realized from the sale. If a loss will be realized, then the investment may be held to maturity.

To allow for efficient and effective placement, a singular repurchase agreement can be utilized for the investment of bond proceeds, which exceeds the 50% limitation.

## INVESTMENT PROCEDURES

The City's portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements. The risk-return relationship will be controlled through the investment parameters, operating requirements, and guiding policies of the City Council. Market value of all securities owned will be compared to current book value of those securities to determine portfolio performance on a quarterly basis. Safety of principal is the foremost objective of this investment policy.

The City will practice competitive bidding when purchasing all investments to guarantee the highest rate of return for the desired maturity date. The right is reserved to reject the most financially favorable bid if it is potentially disruptive to the investment strategy or portfolio composition of the City.

### Approval of Broker/Dealers

It is the policy of the City to purchase securities only from those institutions on the City's approved list of broker/dealers and banks. The City shall at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Those firms that request to become qualified bidders for securities transactions, including financial institutions, banks, money market mutual funds, and local government investment pools, will be required to provide the following documents to the Investments Officer(s).

- (if brokers) Financial Industry Regulatory Authority (FINRA) certification and CRD #
- (if brokers) proof of Texas State Securities registration
- Policy review certification

Each pool/bank/broker must be provided a copy of the City's current Investment Policy and certify to a review of the Policy stating that the firm has controls in place to assure only Policy approved investments will be sold to the City.

This list may be revised as the City's investment needs change. The City shall approve all broker/dealers and shall also have the ability to limit the number of authorized securities dealers/banks doing business with the City.

All banks authorized to sell securities to the City will be Federal Reserve member banks and must be approved by the City. No investments will be placed with Savings and Loan Institutions or Credit Unions.

### Investment Transactions

It is the policy of the City of Jacksonville to require competitive bidding for all individual security purchases and sales except for transactions with money market mutual funds and local government investment pools. A minimum of three bids must be obtained to ensure a competitive price for the transaction. All investment transactions must be approved by the Director of Finance, or registered investment advisor as appointed by the City Manager to execute transactions on behalf of the City, or in their absence, an authorized Investment Officer. All securities purchased shall require delivery on the settlement date to the City or its third party accounts on a delivery versus payment

("DVP") basis, with the exception of investment pools and mutual funds. By so doing, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased.

### Investment Reporting

The Public Funds Investment Act requires the preparation of quarterly management reports and an annual report of all investment transactions of the City be presented to the City Council. The fourth quarter report for the fiscal year will be considered as the annual report. The Primary Investment Officer will prepare the required quarterly and annual reports for evaluating investment portfolio performance. The reports will include the following information, as required by the Public Funds Investment Act:

1. A summary narrative of investment activity and portfolio performance over the Period
2. Size and composition of portfolio at the beginning and end of the reporting period
3. List all investments according to the fund for which they were purchased
4. Beginning and ending book and market value for all securities held
5. Beginning and ending book and market value for the total portfolio
6. All additions and changes to the market value during the period
7. State the compliance of the portfolio to the investment policy and the Public Funds Investment Act
8. Yield
9. Diversification of investments
10. Total sales, maturities, and purchases
11. Accrued interest
12. Performance compared to an established benchmark

These quarterly reports should be used along with the annual report to fully evaluate and explain market trends and adjustment of investment strategies to manage market fluctuations. The annual report will show on a fiscal year basis the results of the overall investment strategy. The quarterly reports will conform to GAAP and be reviewed annually by the City's independent auditor, with results reported to the City Council.

### Marking to Market

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body in the quarterly investment report.

## CUSTODIAL CREDIT RISK MANAGEMENT

### Safekeeping and Custodial Agreements

The laws of the State of Texas and prudent treasury management require that all purchased securities shall be held in safekeeping by either the City, a City account in a third party financial institution, or the City's safekeeping account with its designated depository bank.

All securities owned by the City shall be held by a third party safekeeping agent, or in the Federal Reserve Bank, except for certificates of deposit that have FDIC insurance provided. For certificates of deposit with FDIC insurance, the City will hold the deposit receipt.

Transfers of securities in safekeeping shall be processed with written confirmations. The confirmation will be used for documentation and retention purposes. One of the City's designated Investment Officers must approve release of collateral prior to its removal from the safekeeping account.

### Collateral Policy

Consistent with the requirements of Texas law as defined in Government Code 10, Chapter 2257, known as the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments other than obligations of the United States and its agencies and instrumentalities. Collateral on investments shall be maintained by an appropriate third party safekeeping agent, as designated by the City. This policy also applies to any deposits held in an approved depository in excess of the amount protected by FDIC insurance.

The City of Jacksonville shall accept only the following securities as collateral:

1. FDIC insurance coverage
2. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States
3. Obligations of the United States, its Agencies, and Instrumentalities
4. A bond of the State of Texas or of a county, city, or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less

Certificates of deposit plus accrued interest per non-depository bank do not need to be collateralized pursuant to this policy as long as FDIC insurance is provided. Certificates of Deposit, including accrued interest must be secured by approved collateral for the amount in excess of FDIC insurance coverage.

Collateral is valued at current market plus interest accrued through the date of the valuation. Collateral shall be marked to market daily to determine if adequate collateralization is being maintained. Repurchase agreement collateral must be maintained at the following levels, with respect to repurchase agreement par value plus accrued interest:

<b>MATURITY OF COLLATERAL</b>	<b>U.S. TREASURY SECURITIES</b>	<b>OTHER SECURITIES</b>
<b>1 YEAR OR LESS</b>	101%	102%
<b>1 YEAR TO 5 YEARS</b>	102%	105%
<b>OVER 5 YEARS</b>	103%	110%

Collateral levels should be maintained during an investment transaction. The amount placed in the bank to cover the cost of a security purchase should be fully collateralized in the event the security fails to be delivered to the safekeeping agent.

Collateralized investments often require substitution of collateral. Any broker or financial institution requesting substitution must contact the Primary Investment Officer, or in his absence any other authorized Investment Officer, for approval and settlement. The substituted collateral's value will be calculated and the substitution approved if its value is equal to or greater than the original collateralization level.

The Director of Finance, or an authorized designee, must give immediate notification of the decision to the bank or third party holding the collateral. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Director of Finance may limit substitution and assess appropriate fees if substitution becomes excessive or abusive. Collateral shall be audited at least annually by the City's independent audit firm, and may be audited by the City at any time during normal business hours of the safekeeping party.

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

- Name Type/description CUSIP
- Par value
- Current market value
- Maturity date
- Moody's or Standard & Poor's rating (both if available)

## ARBITRAGE

The Tax Reform Act of 1986 (Title 26 U.S.C. Section 148) provides limitations on the City's yield from investing tax-exempt bond proceeds and debt service funds. These arbitrage rebate provisions require that the City compute earnings on investments from each issue of bonds on a periodic basis to determine if a rebate is required. To determine the City's arbitrage position, the City is required to calculate the actual yield earned on the investment of the funds and compare it to the yield that would have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the City. The rebate provisions state that periodically (not less than once every five years, and not later than sixty days after maturity of the bonds), the City is required to pay the U.S. Treasury a rebate of any excess earnings. These restrictions require extreme precision in the monitoring and record keeping of investments, particularly in computing yields to ensure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issuance.

The City's investment position relative to the arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and to rebate excess earnings, if necessary.

## DEPOSITORIES

The Texas City Depository Act, Local Government Code Chapter 105, prescribes procedures for selection of a city depository designating that both general-law and home- rule cities are "authorized to receive applications (as depository) for the custody of city funds from any bank, credit union or savings association that maintains a place of business within the state of Texas." This clause indicates that cities are not required to designate one central depository. City Charter Article II, Section 18 states in part "the City Council shall designate a bank in the City of Jacksonville as a city depository".

The City of Jacksonville will, through a request for proposals process, designate one or more banks to serve as its primary depository(ies) to maximize investment capabilities and minimize banking cost. The depository designation does not limit investment activity to one financial institution.

The consideration the City of Jacksonville will use to execute a banking services contract will include:

- Ability of Bank to perform and provide the required and requested services
- Reputation of bidder and quality of services provided
- Cost of banking services
- Interest paid on interest bearing accounts and deposits
- Earnings credit calculation on account balances
- Completeness of proposal and agreement to points outlined in the request for proposals
- Convenience of locations
- Previous service relationship with the City
- Financial strength and stability of institution

Obtaining competitive proposals on the City's depository specifications will be the responsibility of the Director of Finance. Selection of the depository shall be based on the institutions offering the most favorable terms and conditions for the handling of City funds and the services available to the City.

The maximum term for a depository contract under State law is five years. The City's contract shall not exceed five years. Special banking needs may be contracted for by the City outside the depository contract if approved by City Council. If a depository does not meet the City's requirements in the banking services contract, the bank will be required to meet the requirements within ninety days or lose the depository contract.

## INVESTMENT POLICY ADOPTION

The investment policy shall be adopted by resolution of the City Council. It is the City's intent to comply with state laws and regulations. The policy shall be reviewed annually by the Finance Committee and the City Council. Policy revisions that require enactment due to updates of applicable state or federal laws may be authorized by the City Manager; however, other significant revisions must be approved by the City Council.

## APPENDIX

Approved list of Broker/Dealers, Banks and Local Government Investment Pools

Policy review certification

## APPROVED LIST OF BROKERS/DEALERS, BANKS AND LOCAL GOVERNMENT INVESTMENT POOLS

### Brokers/Dealers

- Financial Northeastern
- PFM Asset Management

### Banks

- Prosperity Bank- depository contract
- Texas National Bank
- Citizens 1<sup>st</sup> Bank
- Austin Bank
- Southside Bank

### Local Government Investment Pools

- TexSTAR
- LOGIC
- TexasTERM
  - TexasTERM
  - TexasDAILY
  - TexasTERM CP
  - TexasTERM CD Purchase Program
- Lone Star Investment Pool

## POLICY REVIEW CERTIFICATION

### TEXAS PUBLIC FUNDS INVESTMENT ACT CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Jacksonville, Texas (the Investor) 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 Investor 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 into an investment transaction with the Investor on such terms as are defined in the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code,
2. The Qualified Representative of the Business Organization has received and reviewed the Investor's Investment Policy furnished by the Investor, 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 Investor that are not authorized by the Investor's Investment Policy. However, authorization dependent upon an analysis of the makeup of the Investor's entire portfolio or which requires an interpretation of subjective investment standards by the Investor is not required by the Business Organization.

Qualified Representative of the Business Organization

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_