

RESOLUTION NO. 20-R-25

A RESOLUTION BY THE CITY COUNCIL OF THE CITY OF ALVIN, TEXAS, ADOPTING THE CITY OF ALVIN INVESTMENT POLICY FOR THE FISCAL YEAR 2020-2021 FOR THE INVESTMENT OF MUNICIPAL FUNDS; AND SETTING FORTH OTHER RELATED MATTERS.

WHEREAS, Chapter 2256 of the Texas Government Code, the Public Funds Investment Act, requires the City Council to annually review its Investment Policy regarding the investment of City funds and funds under its control; and

WHEREAS, the City Council of the City of Alvin, Texas, desires to adopt its FY21 Investment Policy in accordance with Chapter 2256 of the Texas Government Code, Public Funds Investment Act; and

WHEREAS, pursuant to the Public Funds Investment Act, the governing body of the City shall adopt a resolution stating it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies;

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

Section 1. Findings. The foregoing recitals are hereby found to be true and correct and are hereby adopted by the City Council and made a part hereof for all purposes as findings of fact.

Section 2. The FY21 City of Alvin Investment Policy does not include amendments since the last adoption on May 21, 2020, and is hereby adopted as the investment policy of the City of Alvin, attached hereto as "Exhibit A."

Section 3. The City Council approves and adopts the list of qualified brokers/dealers that are authorized to engage in investment transactions with the City, attached hereto as "Exhibit B."

Section 4. Open Meetings. It is hereby officially found and determined that the meeting at which this resolution was passed was open to the public as required and that public notice of the time, place and purpose of said meeting was given as required by the Open Meetings Act, Chapter 551 of the Texas Government Code.

PASSED AND APPROVED this the 17th day of September 2020.

THE CITY OF ALVIN, TEXAS

ATTEST

Paul A. Horn, Mayor

Dixie Roberts, City Secretary

CITY OF ALVIN INVESTMENT POLICY

I. PURPOSE AND INTENT

It is the policy of the City of Alvin that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable State statutes, the City of Alvin Home-Rule Charter, City Ordinances and the standards of the Governmental Accounting Standards Board. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity while incurring minimal risks.

It is the stated intent of the policy to adhere by and to be in conformance with the statute known as Chapter 2256 of the Texas Government Code, Public Funds Investment Act. Specific interpretation of a section contrary to this intent shall not avoid the remaining policy.

II. SCOPE

Consistent with this Policy the City will endeavor to earn a return on funds invested at the highest investment return possible after taking into account the primary goals of preservation and safety of principal, liquidity of funds invested, and yield. This investment policy applies to the funds of the City of Alvin, which include the following:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Projects Fund
- D. Enterprise Funds
- E. Trust and Agency Funds
- F. Debt Service Fund, including Reserves and I & S Funds
- G. Any other funds created by the City

III. OBJECTIVES

The primary objectives, in priority order, of the City investment activities for all fund groups shall be as follows:

- A. **Preservation and Safety Principal** – Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification along credit and maturity lines is required so that potential losses on individual securities are a small fraction of the overall portfolio and do not exceed the income generated from the remainder of the portfolio.
- B. **Liquidity** – The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

C. **Yield** – 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 the cash flow characteristics of the portfolio.

D. **Public Trust** – All participants in the City’s investment process shall seek to act responsibly as custodians of public trust. Investment officials shall avoid any transaction which might impair public confidence in the City’s ability to govern effectively.

IV. AUTHORIZED INVESTMENTS

All City investments shall comply with the Public Funds Investment Act and other applicable laws. Investments authorized by the Public Funds Investment Act are listed in Sections 2256.009 – 2256.016 and Sections 2256.019 – 2256.0201 of the Public Funds Investment Act. It is the policy of the City of Alvin to limit its investments to the following:

A. Obligations of the U.S. Treasury Bills and Notes

1. Maximum remaining maturity at time of purchase shall be three (3) years.
2. Maximum portfolio mix for these instruments, inclusive of all types, shall be fifty-percent (50%).

B. Local Government Investment Pools that have been authorized by the City Council by rule, ordinance, or resolution in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, which authorizes local governments in Texas to participate in an investment pool established hereunder.

1. Maximum weighted maturity of ninety (90) days.
2. To be eligible to receive funds from and invest funds on behalf of the City, the investment pool shall furnish to the investment officer an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
 - (a) the types of investments in which money is allowed to be invested;
 - (b) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - (c) the maximum stated maturity date any investment security within the portfolio has;
 - (d) the objectives of the pool;
 - (e) the size of the pool;
 - (f) the names of the members of the advisory board of the pool and dates their terms expire;
 - (g) the custodian bank that will safe-keep the pool’s assets;
 - (h) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
 - (i) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment,

- such as insurance or guarantees, and a description of the secondary source of payment;
 - (j) the name and address of the independent auditor of the pool;
 - (k) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the City to invest funds in and withdraw funds from the pool; and
 - (l) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.
3. To maintain eligibility to receive funds from and invest funds on behalf of the City, the investment pool must furnish to the investment officer the following:
- (a) investment transaction confirmations; and
 - (b) a monthly report that contains, at a minimum, the following information:
 - i. the types and percentage breakdown of securities in which the pool is invested.
 - ii. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - iii. the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - iv. the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - v. the size of the pool;
 - vi. the number of participants in the pool;
 - vii. the custodian bank that is safekeeping the assets of the pool;
 - viii. a listing of daily transaction activity of the City;
 - ix. the yield and expense ratio of the pool;
 - x. the portfolio managers of the pool; and
 - xi. any changes or addenda to the offering circular.
4. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

- C. Repurchase Agreements – Fully collateralized direct repurchase agreements having a defined termination date, secured by direct obligations of the U.S. Treasury or U.S. agencies and instrumentalities, in market value of not less than one-hundred and two percent (102%) of the principal amount of the City funds disbursed, pledged to the City, held in the City’s name and deposited at the time the investment is made with a third party selected or approved by the City and placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in the State of Texas.
1. Maximum maturity at purchase shall not exceed ninety (90) days with a total weighted average maturity, at any point in time, not to exceed thirty (30) days.
 2. Portfolio mix of repurchase agreements shall be:
 - (a) Overnight repurchase agreements - No limit
 - (b) 30-day repurchase agreements – Not to exceed 15%
 - (c) 60-day repurchase agreements – Not to exceed 10%
 - (d) 90-day repurchase agreements – Not to exceed 5%
- D. Certificates of Deposits issued by national and state banks domiciled in the State of Texas that are guaranteed or insured by the FDIC or its successor(s)
1. All certificates of deposits, in excess of the FDIC, must be collateralized and collateral must be held by a third party selected or approved by the City and valued on a monthly basis. The percentage of collateralization will adhere to law for deposits.
 2. Maximum maturity on any certificate shall be three (3) years from the time of purchase and the portfolio mix shall not exceed forty percent (40%).
- E. Certificate of Deposits made in accordance with the following conditions:
1. A broker that has its main office or a branch office in Texas and is selected from a list adopted by the City;
 2. the funds are invested by the City through a depository institution that has its main office or a branch office in Texas and that is selected by the City;
 3. the broker or the depository institution selected by the City under Subdivision (2) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, whenever located, for the City’s account;
 4. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
 5. the depository institution selected by the City under Subdivision (2), an entity described by Section 2257.041(d), or a clearing broker dealer registered with the Securities and Exchange Commission and operating pursuant to Security and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Authority with respect to the certificates of deposit issued for the City’s account.

- F. Municipals – Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized rating agency and having received a rating of not less than “A” or its equivalent.
 - 1. Maximum maturity shall be two years from the date of purchase
 - 2. The portfolio mix shall not exceed thirty percent (30%).

- G. Federal Instruments – Eligible for purchase are notes and discount notes of the Federal Home Loan Mortgage Association, Federal National Mortgage Association and Student Loan Marketing Association.
 - 1. Maximum maturity at purchase shall be four (4) years.
 - 2. Maximum portfolio mix for these instruments, inclusive of all types, shall not exceed fifty percent (50%).

- H. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States or the State of Texas 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.

- I. No-load. SEC registered and regulated money market mutual fund with a minimum rating of AAA-, or at an equivalent rating by at least one (1) nationally recognized rating service.

- J. Overnight balances remaining with the City’s depository institution subject to a written depository agreement. These are interest-bearing accounts, fully collateralized by pledged U.S. and Texas State government securities.

- K. Although additional types of securities and instruments are approved for investment, they are not eligible for investment by the City under this policy. An amended version of this policy approved by the City Council is required prior to investments in any other investment instrument not specified herein.

V. MONITORING THE RATING CHANGES IN INVESTMENTS

Consistent with Section 2256.021, Texas Government Code, as amended, the Investment Officer shall monitor all investments that require a minimum rating under subchapter A of Chapter 2256 such that any such investment that does not have the minimum rating shall no longer constitute an authorized investment. Such investments that do not have the required minimum rating shall be liquidated within thirty (30) days of the investment’s failure to maintain its required minimum rating.

VI. INVESTMENT STRATEGY FOR EACH OF THE FUND GROUPS

The investment strategy for each of the fund groups identified in the Scope section is set forth as follows:

A. General Fund Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity;
4. Short-term investments;
5. The dollar weighted average maturity of 730 days or less will be calculated using the stated final maturity dates of each security.

B. Special Revenue Funds Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity
4. Short-term investments.

C. Capital Projects Fund Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity;
4. Short-term investments.

D. Enterprise Funds Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity;
4. Short-term investments.

E. Trust and Agency Funds Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;

3. Selection of maturities that provide for stability of income and liquidity;
4. Short-term investments.

F. Debt Service Fund Investment Objectives:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of debt service required expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity;
4. Short-term investments.

G. Investment Objectives of Any Other Funds Created by the City:

1. Diversification to eliminate risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of investment instruments;
2. Matching of regular operational expenditures of funds with investment interest, maturing investments, and other income sources of the funds;
3. Selection of maturities that provide for stability of income and liquidity;
4. Investment of bond proceeds in accordance with the provisions of the bond ordinance, resolution or trust indenture authorizing the issuance of bonds.

H. Priorities Used for Determination

The separate investment strategies for these fund groups have been determined by using the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

VII. INVESTMENT OFFICER

The Chief Financial Officer/Director of Administrative Services is designated the investment officer of the City and is responsible for investment decisions and activities which shall be conducted under the direction of the City Manager. The investment officer shall develop and maintain written and administrative procedures for operation of the investment program, which must be consistent with the pertinent federal and state laws and this Policy. In order to optimize total return through active portfolio management and preservation of capital, resources shall be allocated to the cash management program. The commitment of resources shall include financial and staffing considerations. The investment officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the investment officer is not available. No officer

or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

A. Training

The investment officer, under Section 2256.008 of the Public Funds Investment Act, shall attend at least ten (10) hours of investment training within twelve months after assuming duties. At least ten (10) hours of training must be received every two (2) consecutive years beginning October 1st of the first year. This training shall be approved or endorsed by Government Treasurers Organization of Texas (GTOT), Government Finance Officers Association of Texas (GFOAT), the Texas Municipal League (TML), or North Central Texas Council of Governments.

B. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to prevent losses of public funds arising from fraud, theft, misuse, employee error, misrepresentations of third parties, unanticipated changes in financial markets or imprudent actions by any person involved in the investment program. Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. 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.

The internal control shall address the following points:

1. Control of Collusion – Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of Transaction Authority from Accounting and Record Keeping – By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial Safekeeping – Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of Bearer Form Securities – Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of Authority to Subordinate Staff Member – Subordinate staff member must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written Confirmation of Telephone Transactions for Investments and Wire Transfers – Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by

written communications and approved by the appropriate person. Written communications may be via fax, if on letterhead, and the safekeeping institution has a list of authorized signatures.

7. Development of a Wire Transfer Agreement with the Lead Bank or Third-Party Custodian – This agreement should outline the various controls, security provisions, and delineated responsibilities of each party making and receiving wire transfers.
8. Documentation of transactions and strategies.
9. Transfer of funds on behalf of the City shall only be to an account in the name of the City of Alvin at the City’s depository bank.

C. Prudence

Investments shall be made with judgment and care under circumstances then prevailing that a person of prudence, discretion and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. The standard of care shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. In other words, in determining whether the investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration (i) the investment of all funds or funds under the City’s control over which the officer has responsibility rather than a consideration as to the prudence of a single investment; and (ii) whether the investment decision was consistent with this Investment Policy.

D. Limitation of Personal Liability

The investment officer and those delegated investment authority, acting in accordance with the law and this Policy and exercising due diligence and prudence, shall not be held personally responsible for a specific security’s credit risk or market price changes, provided that the deviations are reported immediately to the City Council and the City Manager and appropriate action is taken to control adverse conditions.

All participants in the investment process must seek to act responsibly as custodians of the public trust. Investment officials shall endeavor to avoid any transaction that might impair public confidence in the City of Alvin’s ability to govern effectively.

E. Ethics and Conflicts of Interest

If the investment officer has a personal business relationship with an entity seeking to sell an investment to the City, he/she shall file a statement with the Texas Ethics Commission and City Council disclosing the personal business interest. If the investment officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Government Code, to an individual seeking to sell an investment to the City, he/she shall file a statement with the Texas Ethics Commission and City Council disclosing the relationship.

F. Reporting Requirements

The investment officer shall generate quarterly reports, which shall be submitted to the City Manager, Mayor, and City Council at the second regularly scheduled Council Meeting after the end of each quarter. The report shall cover the investment transactions for all funds identified in the Scope section for the preceding quarter. The report will include the following:

1. A detailed description of the City's investment position on the date of the report;
2. A summary statement of each pooled fund group that states the:
 - (a) beginning market value for the reporting period;
 - (b) additions and changes to the market value during the period;
 - (c) ending market value for the period; and
 - (d) fully accrued interest for the reporting period.
3. A statement delineating the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
4. The maturity date of each separately invested asset that has a maturity date;
5. The account or fund or pooled group fund in the City for which each individual investment was acquired;
6. Overall weighted average maturity of the portfolio;
7. Overall current yield of the portfolio;
8. A statement of compliance of the investment portfolio as it relates to the investment strategy expressed in this Policy and the requirements of the Public Funds Investment Act;
9. Any additional information sufficient to permit an independent audit.

The report shall be signed by the investment officer. The City, in conjunction with its annual financial audit, shall conduct a compliance audit of management controls on investments and adherence to this Policy.

G. Compliance

Quarterly reports must be formally reviewed at least annually by an independent auditor and reported to the governing body. (The City is exempt from this review if it only invests in money market mutual funds, investment pools or accounts offered by its depository bank in the form of CDs or money market accounts) PFIA 2256.023 (d).

VIII. REVIEW AND ADOPTION OF INVESTMENT POLICY

The City of Alvin Investment Policy shall be reviewed on an annual basis by the City Council and shall be formally adopted by Resolution of the City Council.

IX. DIVERSIFICATION LIMITATIONS

At a minimum, diversification standards by security type and issuer shall be:

U.S Treasury and Securities with U.S. Government guarantee	Not to Exceed 50%
U.S. Government Agencies and Instrumentalities	Not to Exceed 50%
Certificates of Deposits	Not to Exceed 40%
CDARS	Not to Exceed 40%
Money Market Funds	Not to Exceed 30%
Local Government Investment Pools	Not to be less than 50%
Repurchase Agreements:	
Overnight repurchase agreements	No limit
30-day repurchase agreements	Not to Exceed 15%
60-day repurchase agreements	Not to Exceed 10%
90-day repurchase agreements	Not to Exceed 5%

X. EXISTING INVESTMENTS

Any investments currently held that do not meet the guidelines of this Policy shall be reviewed to determine ability to liquidate. If the security cannot be liquidated because of material adverse changes in value since the time of purchase, and holding the security to maturity does not negatively affect disbursement or cash flow, a recommendation of holding the security to maturity is acceptable. At all times, liquidations shall be effected taking into account the prudent person standard.

XI. PROHIBITED INVESTMENTS

There is an absolute prohibition on investments in any of the following investment instruments:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; interest-only strips.
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; principal-only strips.
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; inverse floaters.

- E. The City will not invest in mortgage backed derivative products.
- F. The City will not invest in commercial paper.
- G. The City is not authorized to invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in §2256.014 Section (b) of the Public Funds Investment Act.

XII. INVESTMENT OF BOND PROCEEDS

Bond proceeds may be invested in accordance with the provisions of the bond ordinance, resolution or trust indenture authorizing the issuance of the bonds. To the extent of any inconsistency between the provisions of this Policy and the operative bond instrument, the investment terms contained in the operative bond instrument shall control; provided however, that no such investment of bond proceeds shall be made in investments which are not authorized by this Policy.

XIII. PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should earn a market average rate of return during a market/economic environment of stable interest rates. The market price of investments acquired with public funds should be monitored at least quarterly. Portfolio performance shall be compared to appropriate benchmark on a regular basis. The City's portfolio shall be compared to the rate of return of the Three (3) month Treasury Bill as reported by the U.S. Department of the Treasury.

XIV. QUALIFIED INSTITUTIONS

A Depository Bank shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions and the ability to meet the City's banking needs shall be considered, and the Chief Financial Officer shall conduct a comprehensive review of each prospective depository. No deposit of public funds shall be made except in a qualified depository as established and defined by state laws. Banks and Savings and Loan Associations seeking to establish eligibility for the competitive certificates of deposit purchase programs shall submit a current audited financial statement and must comply with the requirements of the Public Funds Investment Act and other applicable laws.

The City shall maintain a list of financial institutions and brokers/dealers that have been selected by credit worthiness and authorized to provide investment services pursuant to this Policy. These may include "primary" dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers" unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All Securities dealers shall provide the City with references from public entities they are currently serving.

Brokers/Dealers that desire to become qualified bidders for investment transactions must submit the following documents: audited financial statements, proof of Financial Industry Regulatory Authority (FINRA) certificate, and certification of having read the City's investment policy signed by a qualified representative of the organization acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires and interpretation of subjective investment standards.

“Qualified representative” means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- A. For an organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the Financial Industry Regulatory Authority;
- B. For a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- C. For an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the certification on behalf of the investment pool.

An annual review of all qualified financial institutions and broker/dealers will be conducted by the investment officer and adopted by the council.

XV. SAFEKEEPING

All instruments purchased by the City shall be held in third party safekeeping by an institution designated as primary agent and shall be conducted on a delivery versus payment basis. The primary agent shall issue a safekeeping receipt with securities held in the City's name to the City listing the specific instrument, rate, maturity, and other pertinent information. The City shall enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the City, as may be required by state or federal law. Safekeeping procedures shall be reviewed annually by the City's independent auditor and the Committee.

XVI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Before the City invests surplus funds, a “bid” process shall be conducted. Bids will be solicited from at least three financial institutions or brokers/dealers. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement.

The City will consider a successful bid that conforms to this Policy and the law and that provides the highest rate of return with the required maturity. Records will be kept of the bids offered, the bids accepted, and a brief explanation of the decision, which was made regarding the investment.

XVII. COLLATERALIZATION

Collateralization is required for all uninsured collected balances, plus accrued interest, if any. Except for government securities, as security for deposits, the financial institution or broker/dealer shall pledge securities equal to 102 percent of the investment or be adequately covered by FDIC insurance.

Evidence of the pledged collateral shall be maintained by the Chief Financial Officer and held by an independent third party with whom the City has a current custodial agreement. Any financial institution requesting substitution of collateralized securities must contact the Investment Officer for approval and settlement. The substituted security's value will be equal to or greater than the required security value. Written notification of the substitution must be provided to the bank or safekeeping agent prior to any security release.

Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

In cases where the City purchased any securities from its depository institution, under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), valid collateral pledges for deposits against the FDIC must meet the following requirements:

- A. The security agreement must be in writing.
- B. It must be executed contemporaneously with the acquisition of the asset by the depository institution.
- C. It must be approved by the depository institution's board of directors or loan committee, and that approval must be reflected in the minutes of the board of committee.
- D. It must be an official record of the depository institution continuously since it was executed.

EXHIBIT "B"

List of Authorized Broker/Dealers

AMEGY BANK
ALLEGIANCE BANK
AMERICAN BANK
BANK OF AMERICA
BANK OF HOUSTON
BANK OF NEW YORK
BANK OF TEXAS
BANK OF THE WEST
BBVA COMPASS
CAPITAL ONE
CAPITAL BANK
CENTRAL BANK
CHASEWOOD BANK
CITIBANK N.A.
COMERICA BANK
COMMERCIAL STATE BANK
COMMUNITY BANK OF TEXAS
COMMUNITY STATE BANK
COASTAL SECURITIES
ENCORE BANK
ENTERPRISE BANK
FEDERATED INVESTORS, INC.
FIDELITY INVESTMENTS
FIRST BANK OF CONROE
FIRST BANK OF TEXAS
FIRST BANK AND TRUST
FIRST COMMUNITY BANK
FIRST NATIONAL BANK
FIRST NATIONAL BANK BASTROP
FIRST TEXAS BANK
FISERV INVESTOR SERVICES
FOUNDERS BANK
FROST BANK
GREEN BANK
HERITAGE BANK
HERRING NATIONAL BANK
HILLTOP SECURITIES
HOMETOWN BANK N.A.
HOUSTON COMMUNITY BANK
HOUSTON SAVINGS
ICON BANK
INDEPENDENCE BANK
INTERNATIONAL BANK OF COMMERCE
JP MORGAN CHASE
LIBERTAD BANK
LEGACY TEXAS BANK
LOCAL GOVT INVESTMENT COOPERATIVE
LONE STAR BANK
LONE STAR INVESTMENT POOL
MAIN STREET BANK
MBIA TEXAS CLASS
MERRILL LYNCH, INC.
MIDSOUTH BANK NA
METRO BANK
MEMORIAL CITY BANK
MOODY NATIONAL BANK
MORGAN KEEGAN, INC.
MORGAN STANLEY
NEW FIRST NATIONAL BANK OF ROSENBERG
OASIS CAPITAL BANK
OMNI BANC
PARTNERS BANK OF TEXAS
PATRIOT BANK
PLAINS CAPITAL BANK
PLAINS STATE BANK
POST OAK BANK
PREFERRED BANK
PROSPERITY BANK
RBC CAPITAL MARKETS
REGIONS BANK
SECURITY STATE BANK
SPIRIT OF TEXAS BANK
STATE BANK OF TEXAS
STERLING BANK
TEXPOOL
TEXSTAR INVESTMENT POOL
TEXAN BANK (formerly Bank of Fort Bend)
TEXAS CAPITAL BANK
TEXAS CLASS INVESTMENT POOL
TEXAS COMMUNITY BANK
TEXAS FIRST BANK
TEXAS INDEPENDENT BANK
TEXAS SAVINGS BANK
TEXAS CITIZENS BANK
THE BANK OF RIVER OAKS
THE RIGHT BANK FOR TEXAS
TRADITION BANK
TRUSTMARK NATIONAL BANK
TRI STAR FINANCIAL
UNITY NATIONAL BANK
US BANK
VISTA BANK TEXAS
WALLIS STATE BANK
WELLS FARGO
WESTBOUND BANK
WHITNEY BANK
WOODFOREST NATIONAL BANK