

City of Corsicana, Texas

Investment and Collateralization Policy



December 14, 2020

I. Purpose

It is the intent of the City of Corsicana to invest public funds in a manner which will provide maximum security and the highest investment return while conforming to all federal, state and local statutes governing the investment of public funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets. The Policy and investment strategies shall be reviewed annually by the City Council who will formally approve any modifications. This Investment and Collateralization Policy is in compliance with the provisions of the Public Funds Investment Act of Texas, Government Code Chapter 2256.

II. Scope

This Investment and Collateralization Policy applies to all the investment activities of the City of Corsicana.

- A. Financial assets of all funds, except funds specifically excluded in these policy guidelines, are included. All funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR). Note that retirement funds are covered by a separate policy.
- B. Funds covered by this Policy:
 - 1. General Fund – used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.
 - 2. Special Revenue Funds – used to account for the proceeds from specific revenue sources which are restricted to expenditures for specific purposes.
 - 3. Debt Service Funds – used to account for resources to be used for the payment of principal, interest, and related costs on general obligation debt/interest and sinking funds.
 - 4. Capital Project Funds – used to account for resources to enable the acquisition or construction of major capital equipment and facilities which are not financed by enterprise funds, internal service funds, or trust funds.
 - 5. Enterprise Funds/Proprietary Funds – used to account for operations that are financed and operated in a manner similar to private business enterprises.
 - 6. Internal Service Funds – used to account for the cost of providing goods/services/equipment between City departments.
 - 7. Trust and Agency Funds – used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds; unless required by law or existing contract to be kept segregated and managed separately.
 - 8. Bond Reserve Funds – funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.

9. Any new fund created by the City, such as (but not limited to) resources associated with Public Improvement Districts or Tax Increment Financing zones, unless specifically exempted from this policy by the City or by law.
 10. Bond Funds – funds established with the proceeds from specific bond issue.
- C. This policy does not govern funds that are managed under separate investment programs such as retirement funds, pension funds, and certain private donations that are separately maintained, and defeased bond funds, lease/purchase funds held in trust escrow accounts. The City will maintain responsibility for these funds to the extent required by Federal and State Law, the City Charter, and donor stipulations.
 - D. The City will consolidate cash balances from all applicable funds to maximize investment earnings in accordance with this policy. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Such earnings from investments will be used in a manner that best serves the public trust and interests of the City as deemed in the annual budget.

The City may consolidate cash balances from all applicable funds into pooled funds to maximize investment earnings in accordance with this policy. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Such earnings from investments will be used in a manner that best serves the public trust and interests of the City as deemed in the annual budget.

III. Objectives and Strategies

The City of Corsicana shall design and manage its investments in compliance with all Federal, State, and other legal requirements, including, but not limited to the Act. The objectives of the City's investment policy are safety, liquidity, public trust, and yield. To meet its objectives, the City shall manage and invest its available resources in conformance with State and Federal Regulations, applicable Bond Ordinance requirements, and adopted Investment Policy.

- A. Suitability - Understanding the City's financial requirements and purchasing suitable investments that comply with the Act and this policy are important.
- B. Safety - Preservation and safety of principal of the City's assets is the primary objective of the investment program. All investments will be in high quality securities with no perceived default risk.
- C. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow. A portion of the portfolio will also be placed in short term investment pools and/or money market mutual funds, which offer daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

- D. **Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement or an unforeseen need to liquidate the investment before maturity. Historical market “spreads” between the bid and offer prices of a particular security type of less than a quarter of a percentage point shall define an efficient secondary market.
- E. **Diversification** - Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for diversification and market coverage. Competitive bidding will be used on each sale and purchase. Investment pools satisfy diversification requirements.
- F. **Public Trust** - 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 probable income to be derived. All participants in the City’s investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City’s ability to govern effectively.
- G. **Yield** - The City’s investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio. Yield on investments is of significantly less importance compared to the safety, liquidity and public trust objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The yield of an equally weighted, rolling six-month Treasury bill portfolio shall be the minimum yield objective or “benchmark”. A secondary objective will be to obtain a yield equal to or in excess of a local government investment pool or money market mutual fund.

The first measure of success in this area will be the attainment of enough income to offset inflationary increases. Although steps will be taken to obtain this goal, the City’s staff will follow the “Prudent Person” statement relating to the standard of care that must be exercised when investing public funds per Tex. Gov’t. Code Sec. 2256.006(a-b). Any transactions that might impair public confidence in the City’s ability to govern effectively should be avoided.

IV. Standards of Care

- A. **Delegation of Investment Authority**

The City Manager, the Director of Finance (Chief Financial Officer), and any designee they deem necessary, are designated as the Investment Officers of the City and are responsible for investment decisions and activities, pursuant to Tex Gov’t Code Sec 2256.005(f). The City Council will retain ultimate responsibility as fiduciaries of the assets of the City of Corsicana. The Investment Officers may delegate the day-to-day administrative duties to other persons authorized to perform investment activities for the City, or he/she may perform the duties him or herself. No officer or delegate may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

The Investment Officers are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. These controls should emphasize control of collusion, separation of duties, clear delegation of duties, accurate and timely reporting, and

staying informed about market conditions, changes and trends. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. In conjunction with the City's annual financial audit, a compliance audit of management controls on investments and adherence to the City's Investment Policy shall be required.

B. Training Requirements

The Investment Officers and persons authorized to execute investment transactions must attend at least one training session, ten (10) hours in length, within twelve (12) months after assuming duties. They must take eight (8) hours of investment instruction every two (2) years after the initial training session. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Investment Act. Training must be provided by an approved independent source such as: Government Treasurers Organization of Texas (GTOT), Center for Public Management at University of North Texas (UNT), Government Finance Officers Association of Texas (GFOAT), Texas Municipal league (TML), North Central Texas Council of Governments (NCTCOG), Association of Public Treasurers United States and Canada (APT US & C), and Government Finance Officers' Association (GFOA). No person may engage in investment transactions except as provided under the terms of this Policy.

C. Prudent Person Rule

As set forth in the Act, Investment Officers shall use the standard of prudence with the "Prudent Person Rule". "Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived (Public Funds Investment Act 2256.006(a))."

D. Limitation of Personal Liability

Investment officials acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The City Council will retain ultimate responsibility as fiduciaries of the assets of the City.

E. Ethics, Conflict of Interest and Disclosure

Investment Officers and other employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. According to the Act, an Investment Officer has a personal business relationship with a business organization if:

1. The Investment Officer or employee owns ten percent (10%) or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the Investment Officer from the business organization exceed ten percent (10%) of the Investment Officer's gross income for the previous year; or
3. The Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

Investment Officer(s) must file a disclosure statement with the Texas Ethics Commission and the City Council if an officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City or if the Officer is related within the second degree by affinity or consanguinity, as determined under Tex Gov't Code Ch 573, to an individual seeking to transact investment business with the City of Corsicana.

F. Reporting

Not less than quarterly, the Investment Officer(s) shall prepare and submit to the City Council, a written, signed, investment report demonstrating a list of investment transactions for the preceding reporting period, in accordance with the Act. Reports will include the following:

1. For each pooled fund group: a beginning book value and market value and ending book and market value.
2. The book value and market value of each investment at the beginning and end of the period by type of asset and fund type invested.
3. The maturity date of each investment, if applicable.
4. Statement of compliance of the portfolios as it relates to the investment strategy.
5. The name and signature of all Investment Officers.

Detailed and summary reports will be prepared jointly and presented to the City Council and Mayor in conjunction with the monthly (quarterly) financial report, but not less than quarterly. Reports will comply with Section 2256.023 of the Act, at a minimum.

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that a review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, consideration should be given to the GASB Statement 31 pronouncement.

Unless otherwise required by an external agency, quarterly reports will be formally reviewed at least annually by an independent auditor and reported to the City Council

once the City invests in items other than money market mutual funds, investment pools, or accounts offered by its depository bank in the form of CD's or money market or similar accounts.

V. Authorized Financial Institutions and Dealers

A qualified depository shall be selected through the City's banking services procurement process, which shall include solicitation of proposals as required under Chapter 105 of the Local Government Code. The centralization of depository services is designed to maximize investment capabilities while minimizing service costs. The selection of a depository shall be based on the financial institution offering the most favorable terms and conditions at the least possible cost, while adhering to the guidelines and provisions within the request for proposal. In selecting a depository, the City shall give consideration to the financial institution's credit characteristics, financial history, service capabilities, location within City limits or within a ten (10) mile radius of the City limits, and costs for required services. The City's depository contract shall be for three years with an option to extend for an additional two years upon mutual agreement of the depository and the City. Specialized services may be contracted for by the City with another financial institution or company if the depository cannot provide such service or charges more than the same service with little or no appreciable benefit. To further diversify the assets of the City, another financial institution within the City limits may also be selected as an additional depository of the City for certificates of deposit and/or higher yield savings accounts and additional local government investment pools may be utilized by the City to meet the objectives and strategies of this policy.

VI. Authorized Financial Broker/Dealer and Institutions

All investments made by the City will be made through either the City's banking services depository bank, additional local banks (if necessary to diversify investments) local government investment pools, investment management firm, or a broker/dealer. At least annually, the City Council will review, revise, and adopt a list of qualified broker/dealers that are authorized to engage in investment transactions with the City, per the Act 2256.025. Refer to Appendix A for a list of approved broker/dealers and institutions.

To be included on the City's qualified broker/dealer list that is reviewed, revised, and adopted by the City Council annually, broker/dealers must meet certain criteria as determined by the Investment Officer. The following criteria must be met by those firms on the list:

- A. Adherence to the City's objectives and strategies;
- B. Investment performance and transaction pricing within accepted risk constraints;
- C. Responsiveness to the City's request for services, information and open communication;
- D. Understanding of the inherent fiduciary responsibility of investing public funds;
- E. Similarity in philosophy and strategy with the City's objectives;
- F. Proof of certification by the National Association of Securities Dealers (NASD) and provision of CRD number;
- G. Proof of current registration with the State Securities Commission; and
- H. References from other public entities in Texas.

VII. Approved Broker/Dealers and Institutions

Every bank, local government investment pool, investment management firm or broker/dealer with whom the City transacts business will be provided a copy of this Investment and Collateralization Policy to ensure that they are familiar with the objectives and strategies of the Policy. A qualified representative of the firm will be required to return a signed certification (provided to them by the City, see Appendix B) stating that the Policy has been received and reviewed, and that they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between their organization and the City that are not authorized by the City's Investment and Collateralization Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards, as required by the Act 2256.005 (k-l). Each bank, local government investment pool, investment management firm or broker/dealer is required annually to provide current audited financial statements to the City.

The City may not engage in an investment transaction with a business organization prior to receiving this written certification completed by the organization.

Competitive Bidding

It is the policy of the City to require competitive bidding for all investment transactions (securities and bank C.D's) except for transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates).

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

Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the City.

VIII. Authorized and Suitable Investments

Investments described below are authorized by Chapter 2256, Texas Government Code as eligible securities for the City. City funds governed by this Policy may be invested in the following types of securities:

- A. Obligations of the United States or its agencies with stated maturity not to exceed two years.

- B. Direct obligations of the State of Texas or its agencies with a stated maturity not to exceed two years.
- C. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or its agencies, including obligations that are fully insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States and with stated maturity not to exceed two years.
- D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent along with a stated maturity not to exceed two years.
- E. Certificates of deposit issued by state and national banks having an office in Texas that are:
 - 1. guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor with a stated maturity not to exceed two years; or
 - 2. collateralized in accordance with the collateralization requirements of this policy with a stated maturity not to exceed two years; and
 - 3. in compliance with the provisions of section 2256.010, except as limited by this policy.
- F. A no-load money market mutual fund is an authorized investment:
 - 1. for all City funds if the mutual fund:
 - a. is registered with and regulated by the Securities and Exchange Commission;
 - b. provides the City with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
 - c. has a dollar-weighted average stated maturity of *90 days or fewer*;
 - d. includes in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
 - 2. For all City funds *other than bond proceeds, reserve funds, or debt service funds*, if the mutual fund:
 - a. is registered with the Securities and Exchange Commission;
 - b. has an average weighted maturity of less than two years;

- c. is invested exclusively in obligations approved by Chapter 2256, Subchapter A, Authorized Investments for Governmental Entities;
- d. is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- e. conforms to the requirements set forth in Sections 2256.016 (b) and (c) of the Act relating to the eligibility of investment pools to receive and invest funds of investing entities.

G. *The City is not authorized to:*

- 1. *invest, in the aggregate, more than 15% of its monthly average fund balance, excluding bond or other debt proceeds and reserves and other funds held for debt service, in mutual funds described above;*
- 2. *invest any portion of bond proceeds, reserves, and other funds held for debt service, in mutual funds described in Subsection B above;*
- 3. *invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described above in an amount that exceeds 10 percent of the total assets of the mutual fund.*

H. Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that:

- 1. investment in the particular pool has been authorized by the City Council;
- 2. the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
- 3. the pool shall furnish to the Investment Officer investment transaction confirmations with respect to all investments made with it;
- 4. the pool shall furnish to the Investment Officer monthly reports that contain the information required by Section 2256.016(c) of the Texas Government Code;
- 5. any pool that is created to function as a money market mutual fund must maintain a stable net asset value of one dollar (\$1.00),
- 6. investment philosophy and strategy are consistent with this Policy and the City's ongoing investment strategy; and
- 7. the pool provides evidence of credit rating no lower than "AAA" or "AAA-m" by at least one nationally recognized credit rating service, and have a weighted average maturity of no greater than 90 days.

8. the pool complies with all relevant provisions of chapter 2256, specifically section 2256.016.

The City's investment officers will, not less than quarterly, monitor the rating status of any eligible investment pool(s) and obligations of states (other than Texas), agencies, counties and other political subdivisions by obtaining and reviewing a rating report from at least one nationally recognized investment rating firm. The City shall take all prudent measures that are consistent with this investment policy to liquidate any investment through the most efficient market available that does not have or is down-graded to less than the minimum rating stated herein. However, as stated in Section 2256.017, the City is not required to liquidate investments that were authorized investments at the time of purchase. Investment Officers of the City shall consider the time remaining until maturity, the quality of the investment, and the quality and amounts of any collateral which may be securing the investment in determining whether to hold the investment until maturity or to redeem the investment.

IX. Unauthorized Investments

The following investments are specifically prohibited by State Law or by virtue of this policy:

- A. An obligation whose payment represents the coupon payment on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- B. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- C. Banker's Acceptances
- D. "Bond" Mutual Funds
- E. Collateralized mortgage obligations of any type
- F. Commercial paper, except that the City can invest in local government investment pools and money market mutual funds that have commercial paper as authorized investments. A local government investment pool or money market mutual fund that invests in commercial paper must meet the requirements of Article VIII, section (8) above.
- G. Any other investment specifically prohibited in section 2256.009 (b) (1-4)

X. Collateralization

The City of Corsicana's investment portfolio is selected and managed in such a manner to ensure that it will meet all the requirements established by the City of Corsicana Investment Policy and the Public Funds Investment Act. The Collateralization Policy, as part of the overall Investment Policy, is intended to protect the City's investments by providing a buffer against market changes to provide a level of security for all City funds. Therefore, collateralization will be required on deposits held by depository banks and certificates of deposit.

- A. Allowable Collateral and required Collateral Levels

Eligible collateral for security of the City's deposits is limited to:

- United States Treasury Bills, Treasury Bonds, and Treasury Notes which are backed by the full faith and credit of the United States Government;
- United States Government Agency securities which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States Government, *with a maturity not to exceed twenty years*; and
- Direct obligations of the State of Texas.

This policy requires that collateral pledged be revalued and adjusted on a monthly basis. The variable nature of this system recognizes the appropriateness of lower minimum requirements for collateral instruments that mark-to-market more frequently, and higher ratios for collateral that is market adjusted less frequently.

The following percentages are minimum market value for collateral instruments that are pledged for City deposits (and accumulated interest thereon):

<u>Maturity Period</u>	<u>Minimum Coll. Required -Mkt. Value-</u>
a. up to 1 year	102%
b. between 1 and 5 years	105%
c. more than 5 years	110%

Any collateral with a maturity of over 5 years must be approved by the Investment Officer(s) in writing before the transaction is initiated.

Collateral is valued at current market price plus accrued interest accrued through the date of valuation.

B. Monitoring Collateral Adequacy

The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has deposits. The Investment Officer(s) will at least monitor adequacy of collateralization monthly.

C. Margin Calls on Certificates of Deposit

If the collateral pledged for a certificate of deposit falls below the par value of the deposit, plus accrued interest less FDIC insurance, the Institution will be notified by the Investment Officer(s) and will be required to pledge additional securities, allowed by this policy, no later than the end of the next succeeding business day.

D. Collateral Substitution

Any broker, dealer, or financial institution requesting collateral substitution must contact the Investment Officer(s) for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or

greater than the required security level. The Investment Officer(s), or a designee, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

E. Collateral Reductions

Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer(s) to reduce collateral. Collateral reductions may be permitted only if the City's records indicate that the collateral's market value exceeds the required amount.

XI. Safekeeping and Custody

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or as part of its depository agreement. All collateral securing bank deposits must be held by third-party banking institution acceptable to and under contract with the City, or by the Federal Reserve Bank. All security transactions, including transactions for collateral held in the City's name, except for investment pool funds or mutual fund transactions, shall be conducted on a delivery-verses-payment (DVP) basis. By so doing, City funds are not released until the City has received, through the Safekeeping Agent, the securities purchased. The security shall be held in the name of the City or held on behalf of the City. The Safekeeping Agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

Evidence of perfected ownership shall be provided through monthly safekeeping statements which shall be promptly reconciled to internal investment records.

XII. Investment Parameters

A. Diversification

The City will purchase and diversify its investments by security type and investment maturity, in accordance with this policy. Diversification by investment type shall be established by the following maximum percentages of investment type to the total investment portfolio:

1.	Obligations of the United States or its agencies	100%
2.	Fully collateralized interest bearing commercial checking/savings accounts	100%
3.	Eligible Investment Pools as defined in section 2256.016 of the Act	100%
4.	Fully insured and/or collateralized Certificates of Deposit	50%
5.	No-load Money Market Mutual Funds	35%
6.	Direct obligations of the State of Texas or its agencies	25%
7.	Obligations of states, agencies, cities and other political subdivisions of any state	25%
8.	Other authorized and suitable investments	10%

B. Maximum and Weighted Average Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirement of the funds. The City of Corsicana intends to match the holding periods of investment funds with liquidity need of the City. The maximum final stated maturity of any investment shall not exceed five years. All long-term maturities will be intended to cover long-term liabilities. In addition, no less than ten percent (10%) of the funds in the portfolio will be liquid at all times. The entire portfolio will have a weighted average maturity of one (1) year or less. This weighted average will be calculated using the stated final maturity dates of each security.

C. By Fund Groups

Maturity guidelines by fund are as follows:

1. Operating Funds - The weighted average days to maturity for the operating fund portfolio shall be 365 days or less and the maximum allowable maturity shall be one year.
2. Debt Service Funds - Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officer shall invest in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment. Any unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.
3. Debt Service Reserve Funds - Market conditions, Bond Resolutions constraints and Arbitrage compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Ordinance and shall not exceed the final maturity of the bond issue. All Debt Service Reserve Fund investment maturities shall not exceed five years.
4. Special Project, Special Purpose, and Construction Funds - The investment maturity of bond or debt proceeds shall generally be limited to the anticipated cash flow requirements. City funds that are considered "bond proceeds" for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when arbitrage rebate rules requiring refunding excess earnings. All earnings in excess of the allowable arbitrage earnings will be segregated and made available for any necessary payments to the U.S. Treasury.

XIII. Investment Strategy

The City of Corsicana maintains one portfolio in which all funds under the City's control are pooled for investment purposes. Within the pooled portfolio are fund components, each having an investment strategy as described below:

- A. Investment strategies for operating funds are to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short-term securities or certificates of deposit in a ladder structure or utilizing authorized money market mutual funds

or investment pools that function as money market mutual funds. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

- B. Investment strategies for the debt service funds shall have as the primary objective the assurance of investment liquidity to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated maturity date that exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to medium term maturities.
- D. Investment strategies for special projects, special purpose, or construction fund portfolios will have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include highly liquid securities and investments to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

The Act requires that investment transactions for the City be settled on delivery versus payment (DVP) basis, with the exception of investment pools and mutual funds.

XIV. Monitoring of the Market Value of Investments and Collateral

The Investment Officer(s), with the help of City Council, as needed, shall determine the market value of each investment and of all Collateral pledged to secure deposits of City funds at least quarterly and at a time as close as practicable to the closing of the reporting period for the investments. Such values shall be included on the investment report. The following methods shall be used:

- A. Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.
- B. Shares in money market mutual funds and investment pools shall be valued at par plus any accrued but unpaid interest.
- C. Other investment securities with a remaining maturity of one year or less may be valued in any of the following ways:
 - 1. the lower of two bids obtained from securities broker/dealers for such security;
 - 2. the average of the bid and asked prices for such investment security as published in The Wall Street Journal or The New York Times;
 - 3. the bid price published by any nationally recognized security pricing service; or
 - 4. the market value quoted by the seller of the security or the owner of such Collateral.
- D. Other investment securities with a remaining maturity of greater than one year shall be valued at the lower of two bids obtained from securities broker/dealers for such

security, unless two bids are not available, in which case the securities may be valued in any manner provided in this section.

XV. Internal Control

Investment Officers shall establish a system of internal controls, which shall be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, unanticipated changes in financial markets, or imprudent actions by employees. Pertinent controls include custodian safekeeping receipts records management, avoidance of bearer-form securities, documentation of investment bidding activities, written confirmations of oral transactions, reconciliation records, training requirement documentation, compliance with investment policies, and verification of all interest income and security purchase and sell computations. Where practical, the City should emphasize control of collusion, separation of duties, separation of transaction authority between Accounting and record keeping, clear delegation of duties, accurate and timely reports, validation of investment maturity decisions and supporting cash flow data, adequate training and development of Investment Officials, review of financial conditions of all brokers/dealers and depository institutions, and staying informed about market conditions, changes and trends.

XVI. Performance Standards

The investment portfolio shall be designed with the objective of ensuring the safety of the City's assets and minimizing interest rate risk. In addition, it will remain sufficiently liquid to meet cash flow needs, while protecting the interests of the public, all while obtaining a rate of return throughout budgetary and economic cycles.

The City's overall investment strategy is conservative. Given this strategy, the basis used by the Treasury to determine whether market yields are being achieved shall be the six month U.S. Treasury Bill.

XVII. Investment Policy Adoption and Policy Review

This Investment and Collateralization Policy shall be formally approved and adopted by resolution of the City Council and reviewed annually in accordance with the provisions of the Act.

Appendix “A”

The following are the only eligible institutions and broker/dealers authorized by this Investment Policy to engage in investment transactions with the City:

Depository Institutions:

1. Verabank (Primary Depository Institution)
2. JP Morgan Chase Bank, N.A. (Secondary Depository Institution for EMS lockbox depositis)
3. Wells Fargo Corporate Trust Services (Texas Water Development Board Escrow- Texas Combination Tax and Revenue Certificates of Obligation, Series 2009)
4. Branch Banking and Trust Company

Local Government Investment Pool:

1. Texas Short Term Asset Reserve Fund (TexSTAR)
2. Texas Local Government Investment Pool (TexPool)

Broker/Dealers:

This policy currently does not authorize engagement of third party broker/dealers for assistance with investing City funds. A formal amendment of this policy will be required prior to the involvement of third party broker/dealers with investing City funds.

Appendix "B"

I hereby certify that I have personally read and understand the investment policy of the City of Corsicana, Texas. I further acknowledge that reasonable procedures and controls designed to fulfill those objectives and conditions have been implemented. Therefore, this firm will preclude investment transactions between itself and the City of Corsicana 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 the City's entire portfolio or requires an interpretation of subjective investment standards, thus protecting the City's credit or market risk.

All sales personnel of this firm dealing with the City of Corsicana's account(s) have been informed and will be routinely informed of the City's investment horizons, limitations, strategy and risk constraints, whenever we are so informed by the City.

This firm pledges due diligence in informing the City of foreseeable risks associated with financial transactions connected to this firm.

I further acknowledge that no investment transaction shall occur between this firm and the City, until the City of Corsicana receives this consent form, completed by the firm's qualified representative.

City of Corsicana, Texas:

Connie Standridge
City Manager

Date

* * * * * *Attach City Council Resolution* * * * * *

*Investment and Collateralization Policy Adoptions:
December 17, 2018, Resolution #4106
December 9, 2019, Resolution #4191
December 14, 2020, Resolution #4283*