Memorandum

CITY OF DALLAS

Date August 30, 2013

To Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

Subject Annual Investment Policy Review

Attached is the Annual Investment Policy Review. This briefing will be presented by Corrine Steeger, Assistant Director in the City Controller's Office.

Please contact me if you need additional information.

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
A.C. Gonzalez, Interim City Manager
Thomas P. Perkins, City Attorney
Judge Daniel F. Solis, Administrative Judge
Rosa A. Rios, City Secretary
Craig D. Kinton, City Auditor
Ryan S. Evans, Interim First Assistant City Manager
Jill A. Jordan, P. E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Charles M. Cato, Interim Assistant City Manager
Theresa O'Donnell, Interim Assistant City Manager
Frank Librio, Public Information Office
Elsa Cantu, Assistant to the City Manager

CITY OF DALLAS

ANNUAL INVESTMENT POLICY REVIEW

BUDGET, FINANCE & AUDIT COMMITTEE

September 3, 2013

INVESTMENT POLICY OVERVIEW

- Federal Regulations
- State Statutes
  - Public Funds Investment Act
  - Public Funds Collateral Act
  - Depositories for Municipal Funds
- City Charter and Code

PUBLIC FUNDS INVESTMENT ACT

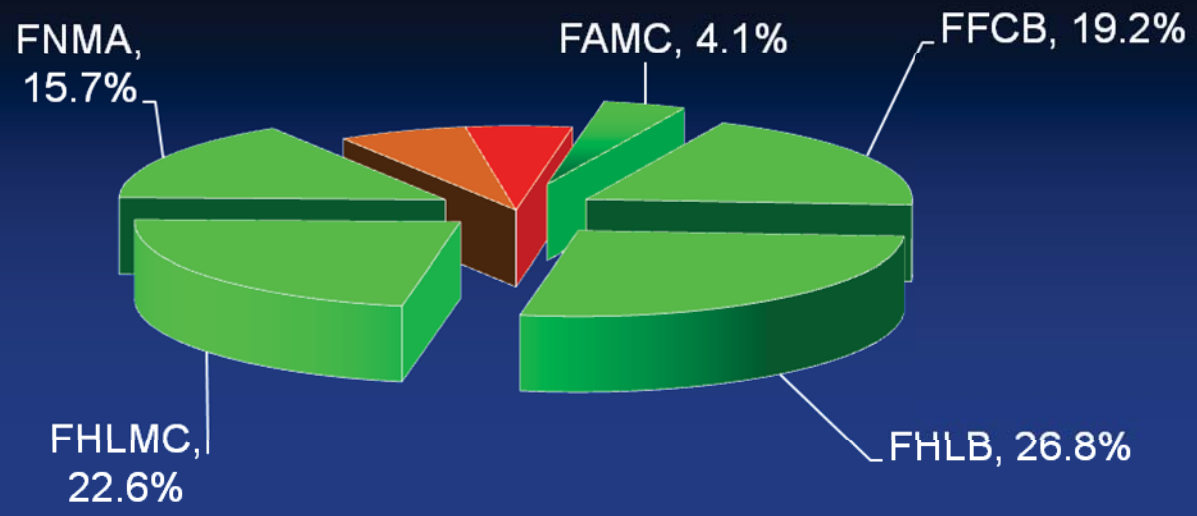
- Requires a written investment policy annually reviewed by the City Council
  - "the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity." (Public Funds Investment Act)
- Requires the policy to address:
  - Safety, liquidity, yield, and diversification
  - Investment strategy
  - Authorized investments

CITY OF DALLAS INVESTMENT POOL

($ in Millions)

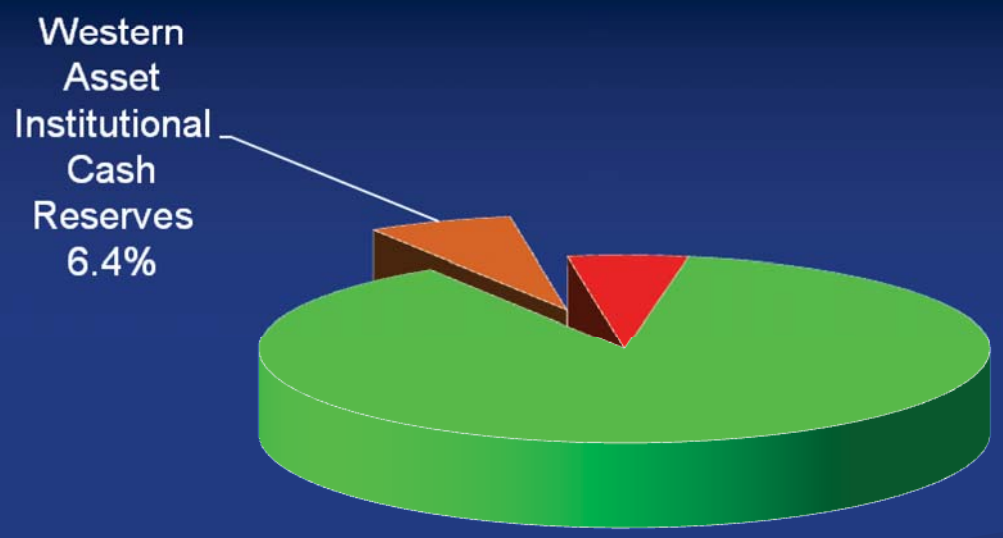
- The City's investment pool includes the following investment types:
  - U.S. Government Agency Securities
  - Money Market Funds
  - Local Government Investment Pools
- The total market value of the City's investment pool as of June 30, 2013 was $1.389 billion. City's total bank depository accounts balance as of June 30, 2013 was $170.7 million. All cash balances in the depository are secured by collateral.

U.S. GOVERNMENT AGENCY SECURITIES



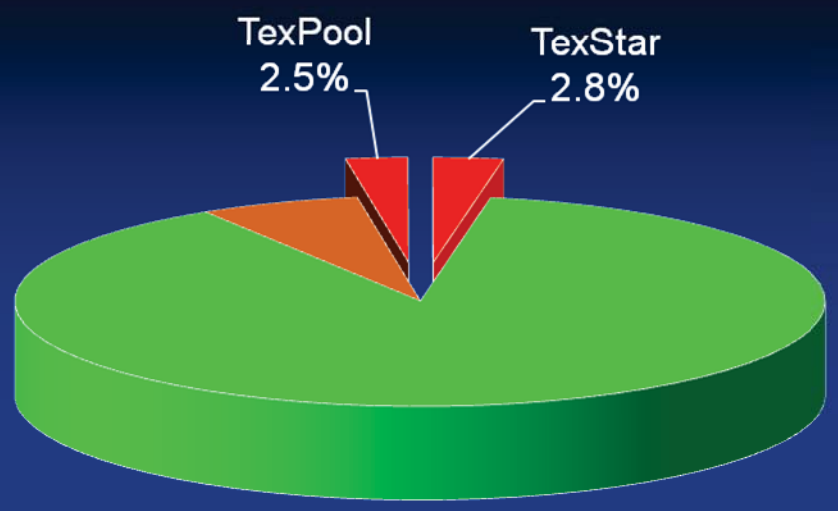
- Direct obligations of U.S. agencies
- Investment pool maximum percentage: 30% by agency(book value)
- Market value as of June 30, 2013 by agency:
  - Federal Agricultural Mortgage Corporation (FAMC or Farmer Mac): $50,093,971
  - Federal Farm Credit Bank (FFCB): $233,345,070
  - Federal Home Loan Bank (FHLB): $326,684,867
  - Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): $274,588,163
  - Federal National Mortgage Association (FNMA or Fannie Mae): $190,955,775

MONEY MARKET MUTUAL FUNDS



- No-load money market mutual funds
  - Registered with and regulated by the Securities and Exchange Commission
  - Rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service
- Investment pool maximum percentage: 15%
  - Limited by fund to lesser of $100 million or 5% of the fund's total assets
- Market value as of June 30, 2013 by fund:
  - Western Asset Institutional Cash Reserves : $ 77,980,000

LOCAL GOVERNMENT INVESTMENT POOLS



- Local government investment pools
  - Rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service
- Investment pool maximum percentage: 30%
  - Limited by pool to lesser of $250 million or 5% of the pool's total assets
- Market value as of June 30, 2013 by pool:
  - TexPool: $30,022,116
  - TexSTAR: $34,084,417

SEPARATELY MANAGED FUNDS

- The City's investment policy also governs funds that are invested separately from the investment pool
  - Oncor and NTTA Escrow Funds are invested in money market mutual funds
  - DWU commercial paper and GO commercial paper proceeds are invested in tax-exempt money market mutual funds
  - Bond reserve funds and endowment funds are invested in U.S. Government agency securities

ANNUAL INVESTMENT POLICY REVIEW

- City Council adopted the original investment policy in 1987 and approved the current policy on November 14, 2012

- Changes in the investment policy are typically made:
  - To incorporate amendments to state and/or federal law
  - To improve management of the City's investments
  - To increase diversification and reduce risk
  - To reflect organizational changes within the City

ANNUAL INVESTMENT POLICY REVIEW

- Characteristics of the City's investment policy:
  - Guides the investment process
  - Emphasizes safety, liquidity and yield in that order
  - Complies with all state and federal laws governing management of public funds

INVESTMENT POLICY AMENDMENTS

The following are highlights of changes recommended by the Investment Committee (see the attached policy for details)

INVESTMENT POLICY AMENDMENTS

- **Section 8.6 – Authorized and Suitable Investments (No-load Money Market Mutual Funds)**
  - Clarifies that money market mutual funds must meet the requirements of the PFIA
  - Removes the Policy restatement of PFIA requirements:
    - having a dollar-weighted average stated maturity of 90 days or fewer
    - seeking to maintain a stable net asset value of $1 per share
  - Changes the minimum rating from AAAm to Aaa
  - This section will conform with PFIA and any changes that may occur as a result of SEC money market fund reform

INVESTMENT POLICY AMENDMENTS

- **Section 8.7 – Authorized and Suitable Investments (Local Government Investment Pools)**
  - Removes the Policy restatement of the PFIA requirement:
    - seeking to maintain a stable net asset value of $1 per share if created to function as a money market mutual fund
  - Changes the Policy minimum rating from AAAm to Aaa
  - This section will conform with PFIA and any changes that may occur as a result of SEC money market fund reform

INVESTMENT POLICY AMENDMENTS

- **Section 10 – Competitive Bidding**
  - Excludes Certificates of Deposit (CD) from competitive bidding if placed with the City's depository bank as authorized by the depository bank contract
    - CD rates offered by the depository bank would be periodically set according to the terms of the contract
    - All amounts invested in CD's would be fully insured and collateralized in compliance with State law

INVESTMENT POLICY AMENDMENTS

- **Section 13 – Diversification and Maximum Maturities**
  - Removes the limitation stating that the City may not own more than 20% of any single U.S. Agency issue with the exception of Discount Notes.
    - A less effective method of promoting diversification of the portfolio than other Investment Policy limitations , such as the limit of 30% on the amount invested in any one agency's securities

INVESTMENT POLICY AMENDMENTS

- **Section 13 – Diversification and Maximum Maturities**
  - Changes the Maximum Stated Maturity of Certificates of Deposit from 1 year to 5 years
  - Excludes Certificates of Deposit, placed with the City's depository bank as authorized by the depository bank contract, from the limits in the Policy on Certificates of Deposit from other financial institutions

INVESTMENT POLICY AMENDMENTS

- **Section 17 – Investment Strategies**
  - Revised Sections 17.2 to 17.6 to differentiate investment strategies and objectives of separately managed funds
  - Revised Sections 17.2 to 17.6 to replace "the best feasible yield" with "a market rate of return" to match investment strategy

INVESTMENT POLICY AMENDMENTS

- **Section 18 – Reporting**
  - Clarifies that month-end market prices on each security are obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services

INVESTMENT POLICY AMENDMENTS

- **Glossary Section - Callable Bond**
  - Clarifies that some callable bonds are "step-up" bonds that pay an initial coupon rate for the first period accompanied by coupon rate increases for the following periods if the bonds are not called by the issuer

KEY DATES

- Investment Committee review and recommendation – August 12, 2013
- Budget, Finance & Audit Committee briefing – September 3, 2013
- Council consideration of the City's investment policy – September 11, 2013

Appendix

Attachment A

- Proposed 2013 City of Dallas Investment Policy (redline)

Attachment B

- Proposed 2013 City of Dallas Investment Policy (clean copy with all appendices included)

ATTACHMENT A

CITY OF DALLAS

INVESTMENT POLICY

As adopted by City Council
~~November 14, 2012~~September 11, 2013

TABLE OF CONTENTS

		Page
1.0	Policy	3
2.0	Scope	3
3.0	Objective	4
4.0	Delegation of Authority	4
5.0	Prudence	5
6.0	Ethics and Conflicts of Interest	5
7.0	Training	5
8.0	Authorized and Suitable Investments	6
9.0	Authorized Broker/Dealers and Financial Institutions	7
10.0	Competitive Bidding	8
11.0	Collateralization of Deposits	8
12.0	Safekeeping and Custody	9
13.0	Diversification and Maximum Maturities	9
14.0	Sale of Securities	10
15.0	Investment Committee	10
16.0	Investment Advisor	10
17.0	Investment Strategies	10
18.0	Reporting	12
19.0	Annual Compliance Audit	12
20.0	Investment Policy Adoption	12
	Glossary	13

Appendices

A. Government Code – Chapter 2256 "Public Funds Investment Act"
B. Council Resolution

1.0 Policy

It is the policy of the City of Dallas to invest public funds in a manner which will provide security and optimize interest earnings to the maximum extent possible while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

This Policy is intended to satisfy the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA" or the "Act") that an investing entity such as the City of Dallas adopt and review an investment policy governing the investment by the investing entity of its funds and funds under its control.

2.0 Scope

This Policy governs the investment of all funds of the City except those that are identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

2.1 All funds are managed as a pooled fund group, referenced in this Policy as the City's investment pool, with the exception of the following, which are managed as separately invested assets:

- 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the City's investment pool will result in maximum interest earnings retention under the provisions of the Internal Revenue Code.
- 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
- 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
- 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of commercial paper notes.

2.2 Funds not governed by this Policy include:

- 2.2.1 Employees' Retirement Fund
- 2.2.2 Dallas Police and Fire Pension System
- 2.2.3 Deferred Compensation Funds
- 2.2.4 Private Donations – investments donated to the City are excluded from this Policy if separately managed under terms of use specified by the donor.

3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

3.1 **Safety**: Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

3.2 **Liquidity**: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

3.3 **Yield**: The City's investment portfolio shall be designed with the objective of attaining a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

5.0 Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

5.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.2 In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

6.0 Ethics and Conflicts of Interest

Investment Officers who have a personal business relationship with a business organization offering to engage in an investment transaction with the City shall refrain from activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

6.1 Investment Officers shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.

6.2 Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:

a) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) the Investment Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

6.3 An Investment Officer has a personal business relationship with a business organization if:

a) the Investment Officer owns 10 percent 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;
b) funds received by the Investment Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
c) the Investment Officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 10 hours of instruction relating to investment responsibilities during a two-year period that begins on the first day of the City's fiscal year following the initial 10 hours of instruction and consists of the two consecutive fiscal years after that date. Training must be received from an independent source approved by the City's Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Act.

8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

8.1 Direct obligations of the United States, its agencies or instrumentalities, and 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 its 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.

The City will restrict investments in eligible securities described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.

8.2 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a bank or credit union that has its main office or branch office within the City and are:

a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
b) secured by obligations in accordance with Section 11.0 herein.

If the certificate of deposit is collateralized by pledged securities the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.

8.3 Certificates of Deposit obtained through a depository institution or a broker approved by the City's Investment Committee under the provisions of Section 9.0 of this Policy that has its main office or branch office within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act.

8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. Prior to investment in a repurchase agreement, the City must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:

a) has a defined termination date;
b) is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
c) requires the securities being purchased by the City or cash held by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

8.5 A securities lending program is an authorized investment if it meets the following conditions:

a) A loan made under the program must allow for termination at any time;
b) A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code,;
c) A loan made under the program must be secured as prescribed in Section 2256.0115(b)(3) of the Act. Securities being held as collateral must be pledged to the City , held in the City's name, and deposited at the time the investment is made with a third party approved by the City.
d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

8.6 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that~~:~~ meet the requirements of the PFIA, and, in addition:

~~a) have a dollar-weighted average stated maturity of 90 days or fewer;~~

~~b) seek to maintain a stable net asset value of $1 per share;~~

~~c~~a) are rated not less than Aaa~~, AAAm~~ or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,

~~d~~b) have provided the City with a prospectus and other information as may be required by ~~the Securities~~law. ~~Exchange Act of 1934 or the Investment Company Act of 1940.~~

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

8.7 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of the PFIA that:

~~a) have a dollar-weighted average stated maturity of 90 days or fewer if created to function as a money market mutual fund;~~

~~b) seek to maintain a stable net asset value of $1 per share if created to function as a money market mutual fund;~~

~~c)~~a) are rated not less than Aaa~~, AAAm~~ or an equivalent rating by at least one nationally recognized rating service; and

~~d)~~b) have provided the City with an offering circular and other information required by the Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools.

The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. An investment that requires a minimum rating under this section does not qualify as an authorized investment during the period the investment does not have the minimum rating. Ratings shall be monitored using nationally recognized financial information sources, including actions published on rating agency websites. The City shall take all prudent measures consistent with the Act to liquidate an investment that does not have the minimum rating required by the Act.

9.0 Authorized Broker/Dealers and Financial Institutions

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

a) received and reviewed the City's Investment Policy; and
b) implemented reasonable procedures and controls in an effort to preclude 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 an interpretation of subjective investment standards.

10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
c) automatic overnight "sweep" transactions with the City Depository
d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act or placed with the City's Depository if so authorized by the City Depository Contract.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit may be solicited in any manner permitted by the Act.

11.0 Collateralization of Deposits

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of this Policy and Chapter 2257, Government Code ("Public Funds Collateral Act") and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. Eligible collateral and collateral ratios are as follows:

Eligible Collateral	Collateral Ratios
1) Direct obligations of the United States or other obligations of the United States or 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.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
2) Direct debt obligations of an agency or instrumentality of the United States.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible under the Public Funds Collateral Act	105%

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

13.0 Diversification and Maximum Maturities

The City's investment pool will be diversified to limit market and credit risk by observing the limitations at the time of purchase as listed below. Funds managed as separately invested assets in Section 2.1 of the Policy are subject to all of the following with the exception of the Issuer Limitation on investment in U.S. Agencies and Instrumentalities. Funds managed as separately invested assets may be invested 100% in the obligations of any one U.S. Agency or Instrumentality.

	Maximum Stated Maturity[1]	**Issuer Limitations**
U.S. Treasuries	5 Years	100% of the City's investment pool may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 Years	No more than 30% of the book value of the City's investment pool may be invested in the obligations of any one issuer. ~~The City may not own more than 20% of any single issue with the exception of Discount Notes.~~
Repurchase Agreements	30 Days	No more than 15% of the City's investment pool may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Money Market Mutual Funds	N/A	The City may not own more than the lesser of $100 million or 5% of the total assets of any one fund, excluding tax-exempt money market mutual funds for investment of commercial paper proceeds.
Local Government Investment Pools	N/A	The City may not own more than the lesser of $250 million or 5% of the total assets of any one pool.
Certificates of Deposit	~~1~~ 5 Years	The City may not own more than $50 million of any single financial institution's certificates of deposit at any one time~~.~~, excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

In addition to the above limitations, the City's investment pool shall be diversified by market sector as follows:

	Maximum Percentage of Investment Pool
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 20% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	30%
Certificates of Deposit	20%**

* Excluding flexible repurchase agreements for bond proceeds.
**Excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

(1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

14.0 Sale of Securities

The City's policy is to hold securities to maturity. However, securities may be sold:

(a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
(b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
(c) in order to meet unanticipated liquidity needs of the portfolio.

15.0 Investment Committee

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, the Cash and Investment Manager and the City's Investment Advisor if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

16.0 Investment Advisor

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

17.0 Investment Strategies

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) limit market and credit risk through diversification; and
d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.

17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
c) manage market and credit risk through diversification and control of counterparty risk; and
d) attain ~~the best feasible yield~~a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield

17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay the final principal and/or interest due on outstanding bonds that are similarly secured or to make up any shortfalls in debt service funds as required by the bond ordinance. ~~if required to prevent default.~~ The objectives of Bond Reserve Fund Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
c) manage market and credit risk through diversification and control of counterparty risk; and
d) attain ~~the best feasible yield~~ a market rate of return commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.

17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes ~~are~~may be invested as separate non-pooled portfolios ~~in order to maximize return.~~if required by the terms of the gift. The objectives of Endowment Portfolios are to:

a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
~~b) ensure that anticipated cash flows are matched with adequate investment liquidity;~~
~~c)~~b) manage market and credit risk through the use of a competitive process to place investments~~diversification~~; ~~and~~
~~d)~~c) attain ~~the best feasible yield~~a market rate of return commensurate with the objectives and restrictions set forth in this Policy~~.~~ and the terms of the gift.

17.5 Commercial Paper Funds Strategy – The City issues tax-exempt commercial paper notes as an interim financing tool for construction projects. Proceeds from the issuance of commercial paper debt must be liquid in order to fund periodic payments to contractors and must be invested in tax-exempt securities in order to avoid costly and complex arbitrage rebate computations. In order to meet these requirements, commercial paper proceeds will be invested in tax-exempt money market mutual funds. The objectives of this portfolio are to:

a) ensure safety of ~~principal~~ principal and sufficient liquidity by investing only in ~~AAA-rated~~ tax-exempt money market mutual funds;
~~b) ensure that anticipated cash flows are matched with adequate investment liquidity;~~
~~c)~~b) manage market and credit risk through diversification of funds and requirement of AAA rating; and
~~d)~~c) attain ~~the best feasible yield~~a market rate of return commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.

17.6 Trinity Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority ("NTTA") pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to

project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Act. The objectives of this portfolio are to:

a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification~~; and~~ of funds and requirement of AAA rating; and
d) attain ~~the best feasible yield~~a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

18.0 Reporting

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from ~~a variety of~~ nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services. ~~(e.g., Street Software Technology, Inc., Interactive Data Corp., the Wall Street Journal, and Bloomberg)~~. These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of the Act.
An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

19.0 Annual Compliance Audit

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established policy.

20.0 Investment Policy Adoption

The City's Investment Policy is hereby adopted by resolution of the City Council on ~~November 14, 2012~~September 11, 2013 in accordance with the PFIA.

GLOSSARY

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which securities are offered by sellers.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium. Some callable bonds are step-up bonds that pay an initial coupon rate for the first period, and then the coupon rate increases for the following periods if the bonds are not called by the issuer.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over $100,000) CD's are typically negotiable.

CODE: The Internal Revenue Code of 1986, as amended.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade which had previously been agreed to verbally.

COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits.

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

LIQUIDITY: An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

PAR: See Face Value

PFIA OR ACT: The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

REVERSE REPURCHASE AGREEMENT: (See Repurchase Agreement)

SAFEKEEPING: A procedure where securities are held by a third party acting as custodian for a fee.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITIES LENDING: The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

SEC RULE 15C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate

security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

ATTACHMENT B

CITY OF DALLAS

INVESTMENT POLICY

As adopted by City Council
September 11, 2013

TABLE OF CONTENTS

		Page
1.0	Policy	3
2.0	Scope	3
3.0	Objective	4
4.0	Delegation of Authority	4
5.0	Prudence	5
6.0	Ethics and Conflicts of Interest	5
7.0	Training	5
8.0	Authorized and Suitable Investments	6
9.0	Authorized Broker/Dealers and Financial Institutions	7
10.0	Competitive Bidding	8
11.0	Collateralization of Deposits	8
12.0	Safekeeping and Custody	9
13.0	Diversification and Maximum Maturities	9
14.0	Sale of Securities	10
15.0	Investment Committee	10
16.0	Investment Advisor	10
17.0	Investment Strategies	10
18.0	Reporting	12
19.0	Annual Compliance Audit	12
20.0	Investment Policy Adoption	12
	Glossary	13

Appendices

A. Government Code – Chapter 2256 "Public Funds Investment Act"
B. Council Resolution

1.0 Policy

It is the policy of the City of Dallas to invest public funds in a manner which will provide security and optimize interest earnings to the maximum extent possible while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

This Policy is intended to satisfy the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA" or the "Act") that an investing entity such as the City of Dallas adopt and review an investment policy governing the investment by the investing entity of its funds and funds under its control.

2.0 Scope

This Policy governs the investment of all funds of the City except those that are identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

2.1 All funds are managed as a pooled fund group, referenced in this Policy as the City's investment pool, with the exception of the following, which are managed as separately invested assets:

- 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the City's investment pool will result in maximum interest earnings retention under the provisions of the Internal Revenue Code.
- 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
- 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
- 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of commercial paper notes.

2.2 Funds not governed by this Policy include:

- 2.2.1 Employees' Retirement Fund
- 2.2.2 Dallas Police and Fire Pension System
- 2.2.3 Deferred Compensation Funds
- 2.2.4 Private Donations – investments donated to the City are excluded from this Policy if separately managed under terms of use specified by the donor.

3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

3.1 **Safety**: Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

3.2 **Liquidity**: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

3.3 **Yield**: The City's investment portfolio shall be designed with the objective of attaining a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

5.0 Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

5.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.2 In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

6.0 Ethics and Conflicts of Interest

Investment Officers who have a personal business relationship with a business organization offering to engage in an investment transaction with the City shall refrain from activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

6.1 Investment Officers shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.

6.2 Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:

a) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) the Investment Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

6.3 An Investment Officer has a personal business relationship with a business organization if:

a) the Investment Officer owns 10 percent 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;
b) funds received by the Investment Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
c) the Investment Officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 10 hours of instruction relating to investment responsibilities during a two-year period that begins on the first day of the City's fiscal year following the initial 10 hours of instruction and consists of the two consecutive fiscal years after that date. Training must be received from an independent source approved by the City's Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Act.

8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

8.1 Direct obligations of the United States, its agencies or instrumentalities, and 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 its 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.

The City will restrict investments in eligible securities described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.

8.2 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a bank or credit union that has its main office or branch office within the City and are:

a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
b) secured by obligations in accordance with Section 11.0 herein.

If the certificate of deposit is collateralized by pledged securities the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.

8.3 Certificates of Deposit obtained through a depository institution or a broker approved by the City's Investment Committee under the provisions of Section 9.0 of this Policy that has its main office or branch office within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act.

8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. Prior to investment in a repurchase agreement, the City must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:

a) has a defined termination date;
b) is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
c) requires the securities being purchased by the City or cash held by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

8.5 A securities lending program is an authorized investment if it meets the following conditions:

a) A loan made under the program must allow for termination at any time;
b) A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code,;
c) A loan made under the program must be secured as prescribed in Section 2256.0115(b)(3) of the Act. Securities being held as collateral must be pledged to the City , held in the City's name, and deposited at the time the investment is made with a third party approved by the City.
d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

8.6 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that meet the requirements of the PFIA, and, in addition:

a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,
b) have provided the City with a prospectus and other information as may be required by law.

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

8.7 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of the PFIA that:

a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service; and
b) have provided the City with an offering circular and other information required by the Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools.

The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. An investment that requires a minimum rating under this section does not qualify as an authorized investment during the period the investment does not have the minimum rating. Ratings shall be monitored using nationally recognized financial information sources, including actions published on rating agency websites. The City shall take all prudent measures consistent with the Act to liquidate an investment that does not have the minimum rating required by the Act.

9.0 Authorized Broker/Dealers and Financial Institutions

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

a) received and reviewed the City's Investment Policy; and
b) implemented reasonable procedures and controls in an effort to preclude 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 an interpretation of subjective investment standards.

10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
c) automatic overnight "sweep" transactions with the City Depository
d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act or placed with the City's Depository if so authorized by the City Depository Contract.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit may be solicited in any manner permitted by the Act.

11.0 Collateralization of Deposits

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of this Policy and Chapter 2257, Government Code ("Public Funds Collateral Act") and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. Eligible collateral and collateral ratios are as follows:

Eligible Collateral	Collateral Ratios
1) Direct obligations of the United States or other obligations of the United States or 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.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
2) Direct debt obligations of an agency or instrumentality of the United States.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible under the Public Funds Collateral Act	105%

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

13.0 Diversification and Maximum Maturities

The City's investment pool will be diversified to limit market and credit risk by observing the limitations at the time of purchase as listed below. Funds managed as separately invested assets in Section 2.1 of the Policy are subject to all of the following with the exception of the Issuer Limitation on investment in U.S. Agencies and Instrumentalities. Funds managed as separately invested assets may be invested 100% in the obligations of any one U.S. Agency or Instrumentality.

	Maximum Stated Maturity[1]	**Issuer Limitations**
U.S. Treasuries	5 Years	100% of the City's investment pool may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 Years	No more than 30% of the book value of the City's investment pool may be invested in the obligations of any one issuer.
Repurchase Agreements	30 Days	No more than 15% of the City's investment pool may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Money Market Mutual Funds	N/A	The City may not own more than the lesser of $100 million or 5% of the total assets of any one fund, excluding tax-exempt money market mutual funds for investment of commercial paper proceeds.
Local Government Investment Pools	N/A	The City may not own more than the lesser of $250 million or 5% of the total assets of any one pool.
Certificates of Deposit	5 Years	The City may not own more than $50 million of any single financial institution's certificates of deposit at any one time, excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

In addition to the above limitations, the City's investment pool shall be diversified by market sector as follows:

	Maximum Percentage of Investment Pool
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 20% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	30%
Certificates of Deposit	20%**

* Excluding flexible repurchase agreements for bond proceeds.
**Excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

(1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

14.0 Sale of Securities

The City's policy is to hold securities to maturity. However, securities may be sold:

(a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
(b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
(c) in order to meet unanticipated liquidity needs of the portfolio.

15.0 Investment Committee

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, the Cash and Investment Manager and the City's Investment Advisor if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

16.0 Investment Advisor

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

17.0 Investment Strategies

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) limit market and credit risk through diversification; and
d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.

17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
c) manage market and credit risk through diversification and control of counterparty risk; and
d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield

17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay the final principal and/or interest due on outstanding bonds that are similarly secured or to make up any shortfalls in debt service funds as required by the bond ordinance. The objectives of Bond Reserve Fund Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
c) manage market and credit risk through diversification and control of counterparty risk; and
d) attain a market rate of return commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.

17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes may be invested as separate non-pooled portfolios if required by the terms of the gift. The objectives of Endowment Portfolios are to:

a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
b) manage market and credit risk through the use of a competitive process to place investments;
c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the terms of the gift.

17.5 Commercial Paper Funds Strategy – The City issues tax-exempt commercial paper notes as an interim financing tool for construction projects. Proceeds from the issuance of commercial paper debt must be liquid in order to fund periodic payments to contractors and must be invested in tax-exempt securities in order to avoid costly and complex arbitrage rebate computations. In order to meet these requirements, commercial paper proceeds will be invested in tax-exempt money market mutual funds. The objectives of this portfolio are to:

a) ensure safety of principal and sufficient liquidity by investing only in tax-exempt money market mutual funds;
b) manage market and credit risk through diversification of funds and requirement of AAA rating; and
c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.

17.6 Trinity Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority ("NTTA") pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Act. The objectives of this portfolio are to:

a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;

c) manage market and credit risk through diversification of funds and requirement of AAA rating; and
d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

18.0 Reporting

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services. . These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of the Act.
An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

19.0 Annual Compliance Audit

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established policy.

20.0 Investment Policy Adoption

The City's Investment Policy is hereby adopted by resolution of the City Council on September 11, 2013 in accordance with the PFIA.

GLOSSARY

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which securities are offered by sellers.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium. Some callable bonds are step-up bonds that pay an initial coupon rate for the first period, and then the coupon rate increases for the following periods if the bonds are not called by the issuer.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over $100,000) CD's are typically negotiable.

CODE: The Internal Revenue Code of 1986, as amended.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade which had previously been agreed to verbally.

COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits.

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

LIQUIDITY: An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

PAR: See Face Value

PFIA OR ACT: The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

REVERSE REPURCHASE AGREEMENT: (See Repurchase Agreement)

SAFEKEEPING: A procedure where securities are held by a third party acting as custodian for a fee.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITIES LENDING: The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

SEC RULE 15C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate

security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

APPENDIX A

PUBLIC FUNDS INVESTMENT ACT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply

district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "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 a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(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;

(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 written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in

investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

(1) a local government;

(2) a state agency;

(3) a nonprofit corporation acting on behalf of a local government or a state agency; or

(4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

(1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least $95 million in book value on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds;

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

(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.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent 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 10 percent 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.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity

to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 1, eff. June 17, 2011.

Sec. 2256.006. STANDARD OF CARE. (a) 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. Investment of funds shall be governed by the following investment objectives, in order of priority:

(1) preservation and safety of principal;

(2) liquidity; and

(3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The

investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 2, eff. June 17, 2011.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS. (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b) and (e), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI,

Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 3, eff. June 17, 2011.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations 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, or 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 by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 4, eff. June 17, 2011.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through:

(A) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or

(B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) 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; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.

Amended by:

Acts 2005, 79th Leg., Ch. 128, Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 5, eff. June 17, 2011.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(1) has a defined termination date;

(2) is secured by a combination of cash and obligations described by Section 2256.009(a)(1); and

(3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and

(4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time

the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 6, eff. June 17, 2011.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities 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.);

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years;

(3) is invested exclusively in obligations approved by this subchapter;

(4) 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

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) 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 Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(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 in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;

(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) 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;

(10) the name and address of the independent auditor of the pool;

(11) 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 entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, 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.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an 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.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 7, eff. June 17, 2011.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. 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.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 8, eff. June 17, 2011.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 7, Sec. 1, eff. April 13, 2007.

Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. 1371, Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

Added by Acts 2011, 82nd Leg., R.S., Ch. 804, Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds; and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347, Sec. 1, eff. June 17, 2011.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. 121, Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 9, eff. June 17, 2011.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

(2) an entity created under Chapter 392, Local Government Code; or

(3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

APPENDIX B

COUNCIL RESOLUTION

September 11, 2013

WHEREAS, in 1987 the City Council adopted the City's Investment Policy which was in compliance with the federal and state law and the City Charter; and

WHEREAS, in 1995 and 1997 through 2012, the City Council amended the City's Investment Policy to incorporate amendments to the Public Funds Investment Act, improve management of the City's investments and reflect organizational changes; and

WHEREAS, the Public Funds Investment Act requires that the investment shall be made in accordance with written policies approved, at least annually, by the governing body; and

WHEREAS, investment policies must address safety of principal, liquidity, yield, diversification and maturity, with primary emphasis on safety of principal. **Now, Therefore,**

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:

Section 1. That the attached City of Dallas Investment Policy has been reviewed by the City Council and shall be adopted as the guiding policy in the ongoing management of the specified funds in accordance with federal and state law and the City Charter.

Section 2. That this resolution shall be take effect immediately from and after its passage in accordance with the provisions of the Charter of the City of Dallas and it is accordingly so resolved.