CITY OF DALLAS
INVESTMENT POLICY

FINANCE, AUDIT & ACCOUNTABILITY COMMITTEE
October 9, 2006

BACKGROUND

- City Council adopted original Investment Policy in 1987.
- Current Investment Policy approved by the City Council on November 9, 2005.
- Public Funds Investment Act requires City Council, not less than annually, to adopt a written instrument stating that it has reviewed the Investment Policy and approved any changes thereto.
- City's Investment Policy has received a Certificate of Distinction from the Government Treasurers' Organization of Texas (March 2004) and an Investment Policy Certification from the Municipal Treasurers' Association of the U.S. and Canada (July 1998).

RECOMMENDED CHANGES TO POLICY

- Staff has reviewed the Policy and recommends several changes:
  - Section 4-Delegation of Authority
  - Section 12-Safekeeping and Custody
  - Section 13-Diversificaton and Maximum Maturities
  - Section 15-Investment Committee
  - Add definition of Market Risk

RECOMMENDED CHANGE TO POLICY

- Section 4-Delegation of Authority

  Add the Director of the Office of Financial Services as an Investment Officer to reflect the current organizational structure.

  Investment Officers would now include:

  - Chief Financial Officer
  - Director of the Office of Financial Services
  - Assistant Director/Treasury Manager

RECOMMENDED CHANGE TO POLICY______

- Section 12-Safekeeping and Custody

  Clarify the wording to reflect the difference in safekeeping arrangements for portfolio investments and the safekeeping of collateral for the City's deposits.

  A) Industry practice dictates that the City's investment securities are held at the Federal Reserve Bank as electronic bookkeeping entries.
     - -These securities are held in nominee form by the City's third party custodian (Bank of America) for the benefit of the City.
     - -Bank of America is required to issue safekeeping receipts detailing the securities are owned by the City.

  B) The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured by eligible pledged collateral.
     - - The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral.
     - - The City currently maintains its collateral for deposits with the Federal Reserve Bank.
     - - The Fed, itself, may act as safekeeping agent for both the City and the bank pledging the collateral to secure City deposits under a specifically designed system. Upon proper transfer by the pledging bank into a "joint custody account," the Fed will issue a "joint safekeeping receipt" to both the pledging bank and the City.

RECOMMENDED CHANGE TO POLICY

- Section 13-Diversificaton and Maximum Maturities

  Increasing certain limitations set by the investment policy to more efficiently manage the portfolio and to more effectively reflect the growth in the assets.

  A) Change in percent owned by the City of any <u>single issue</u> pertaining to a U.S. Agency/Instrumentality from 10% to 20%.
  -The change in this provision allows the City to increase its portfolio diversification by allowing more purchases of Federal Farm Credit Bank (FFCB) securities. FFCBs are the only “non-housing” related securities aside, from U S Treasuries that the City may invest in.
     i. Both total and individual issuance size of FFCBs is generally smaller than that of the housing related government sponsored enterprises (GSEs), which is why staff has recommended this change.

  -The City also invests in government-sponsored enterprises (GSEs) such as the Federal Home Loan Bank, Fannie Mae, Freddie Mac and Federal Farm Credit Bank considered “housing” related securities.

  -Other investment policies of Texas governmental entities reviewed by staff do not contain restrictions regarding percent owned of a single issue as it pertains to U.S. Government Agencies and Instrumentalities.

- Section 13-Diversificaton and Maximum Maturities-(continued)

B) Change in maximum authorized amount held in Local Government Investment Pools (LGIP) from $100 million to $200 million.

- To allow the City to temporarily combine and house debt service payments with monies for servicing our working capital needs.
  i. The City makes four large debt service payments yearly.
  ii. During these periods the amounts held may exceed the $100 million required for the LGIP.
  iii. The staff's objective is to have investment securities mature on or near the debt service due date.
  iv. However, when securities mature before the due date the $100 million may be exceeded.
  v. The increase in the authorized amount invested in the LGIP (while still not exceeding 5% of the LGIP size) would enable the City to more effectively hold large debt service payments along with the City's working capital cash needs.

C. Change in maximum percentage held in Local Government Investment Pools (LGIPs) from 15% to 25% of the City's Investment Pool Assets.

- This relates to the increased limits of the prior section. If the City were to temporarily hold $200 million in a LGIP this could exceed the current 15% limitation.

RECOMMENDED CHANGES TO POLICY

- Section 15-Investment Committee

  A) Change in the composition of the Investment Committee as reflected by the reorganization of the Cash & Debt Division and recognition that the Director of the Office of Financial Services will be included under "Investment Officers."

  B) Stipulate that the Investment Advisor is a "non-voting" member of the Investment Committee.

RECOMMENDED CHANGES TO POLICY

Add to Glossary – “Market Risk“as a defined term.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in the 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 diversification; also known as systematic risk.

RECOMMENDATION

- Committee recommendation for Council adoption of revised Investment Policy on November 8, 2006.