

# Memorandum

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CITY SECRETARY  
DALLAS, TEXAS



CITY OF DALLAS

**DATE:** October 23, 2009

**TO:** Members of the Budget, Finance & Audit Committee  
Ann Margolin, Vice Chair, Vonciel Jones Hill, Angela Hunt, Delia D. Jasso, Ron Natinsky,  
David A. Neumann

**SUBJECT:** **Budget, Finance & Audit Committee Meeting**  
**Monday, October 26, 2009, 9:30 a.m. – 11:30 a.m.**  
**1500 Marilla Street, City Hall, Room 6ES, Dallas, Texas 75201**

## AGENDA

1. Consideration of minutes from the October 12, 2009 Budget, Finance, and Audit Committee Meeting
2. Property Appraisal Process Overview  
Ken Nolan, Chief Appraiser/Exec. Director  
Dallas Central Appraisal District
3. Real Property Acquisition Procedures and Requirements  
Theresa O'Donnell, Director  
Development Services
4. Annual Investment Policy Review and Discussion of Investment Strategies  
Corrine Steeger, Assist. Director  
City Controller's Office

### FYI:

5. Quarterly Investment Report
6. August 2009 Financial Forecast Report



Jerry R. Allen, Chair  
Budget, Finance & Audit Committee

- C:** The Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Deborah Watkins, City Secretary  
Tom Perkins, City Attorney  
Craig Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Dave Cook, Chief Financial Officer

A closed executive session may be held if the discussion of any of the above agenda items concerns one of the following:

1. Contemplated or pending litigation, or matters where legal advice is requested of the City Attorney. Section 551.071 of the Texas Open Meetings Act.
2. The purchase, exchange, lease or value of real property, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Section 551.072 of the Texas Open Meetings Act.
3. A contract for a prospective gift or donation to the City, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Section 551.073 of the Texas Open Meetings Act.
4. Personnel matters involving the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee or to hear a complaint against an officer or employee. Section 551.074 of the Texas Open Meetings Act.
5. The deployment, or specific occasions for implementation of security personnel or devices. Section 551.076 of the Texas Open Meetings Act.
6. Deliberations regarding economic development negotiations. Section 551.087 of the Texas Open Meetings Act.

**BUDGET, FINANCE, AND AUDIT COMMITTEE  
DRAFT MEETING MINUTES  
October 12, 2009**

The Council's Budget, Finance, and Audit Committee meetings are recorded. Agenda materials and audiotapes may be reviewed by contacting the City Manager's Office Staff Coordinator at 214-670-7804.

**Meeting Date:** October 12, 2009

**Committee Members Present:**

Jerry Allen, Chair, Ann Margolin, Vice – Chair  
Vonciel Jones Hill, Angela Hunt, Delia Jasso, Ron Natinsky,  
David A. Neumann

**Committee Members Absent:**

None

**Other Council members who attended a partial or duration of the meeting:**

Mayor Pro Tem Dwaine Caraway  
Tennell Atkins

**Staff Members Present:**

Dave Cook, Kathy Becker, Laura Carrillo, Edward Scott, Lance Seahorn, Jack Ireland, Brett Wilkinson, Rosa Fleming, Deborah Watkins, Danny Soliz, Rhonn Ramirez, Gwen Satterthwaite, Craig Kinton, Jeannie Eneh

**Meeting called to order at 9:35 a.m.**

**AGENDA:**

1. **Consideration of Minutes from September 29, 2009 Budget, Finance and Audit**

**Presenter(s):**

**Information Only:**

**Action Taken/Committee Recommendation(s):** The Budget, Finance and Audit Committee made a motion for an amendment to the September 29, 2009 minutes to reflect Councilmember Vonciel Jones Hill was absent on City business.

Motion made by: David A. Neumann

Motion seconded by: Jerry Allen

The motion passed unanimously

2. **Discussion of Fiscal Year 2009 Audit**

**Presenter(s): Ben Kohnle, Audit Partner**

**Information Only: Yes**

**Action Taken/Committee Recommendation(s): Recommend for approval by City Council**

Motion made by:

Motion seconded by:

**Follow up:** Ben Kohnle informed the committee his office would set-up individual meetings with each Committee member in regards to the FY 2009 Audit. Councilmember Jerry Allen asked that this item be brought back to the committee in January or February 2010.

3. **American Recovery & Reinvestment Act Status Report**

**Presenter(s): Brett Wilkinson and Rosa Fleming**

**Information Only: Yes**

**Action Taken/Committee Recommendation(s)**

Motion made by:

Motion seconded by:

**Follow up:** Councilmember Delia Jasso requested another column be added to show what funds have been paid back to the City. Councilmember Tennell Atkins requested a break down on the community service reentry program. Councilmember Ron Natinsky requested an update on Regional Transportation Commission (RTC) funds.

4. **Other Discussion**

Councilmember Jerry Allen requested that Collin/Denton County Chief Tax Appraisers be invited to the October 26, 2009 Budget, Finance and Audit Committee Meeting.

**Meeting adjourned at 11:46 a.m.**

## Memorandum



**DATE:** October 23, 2009

**TO:** Members of the Budget, Finance & Audit Committee  
Jerry R. Allen, Chair, Ann Margolin, Vice Chair, Vonciel Jones Hill, Angela Hunt, Delia D. Jasso,  
Ron Natinsky, David A. Neumann

**SUBJECT:** **Property Appraisal Process Overview**

The Budget, Finance & Audit Committee's October 26<sup>th</sup> agenda includes the subject briefing. Ken Nolan (Chief Appraiser of the Dallas Central Appraisal District) will brief the Committee and his briefing materials are attached. In addition, Bo Daffin (Chief Appraiser of the Collin Central Appraisal District) and Joe Rogers (Chief Appraiser of the Denton Central Appraisal District) will be in attendance



David Cook  
Chief Financial Officer

Attachment

C: The Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Deborah Watkins, City Secretary  
Tom Perkins, City Attorney  
Craig Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager

**City of Dallas**

**Property Appraisal Process Overview  
Presentation**

**by**

**Dallas Central Appraisal District**

**Ken Nolan**

**Chief Appraiser/Executive Director**

**Budget, Finance & Audit Committee**

**October 26, 2009**

# TEXAS PROPERTY TAX HISTORY

**Centralized Appraisal District Concept  
formulated by**

**66<sup>TH</sup> Texas Legislature in 1979, Senate Bill  
No. 621 (“Peveto Bill”)**

- Funding began in January 1981
- First appraisal roll due in July 1982

# WHY APPRAISAL DISTRICTS EXIST

- Avoid additional school finance litigation
  - School funds were distributed according to property wealth, but school districts had widely differing levels of appraisal and appraisal practices. It was impossible to determine what the true property wealth of a district was.

# WHY APPRAISAL DISTRICTS EXIST

- Correct inequity and poor performance in tax offices
  - Each taxing unit was responsible for its own appraisals. Many units hadn't reappraised in years. Appraisers were poorly trained and inadequately funded. There were often great differences in appraisal level between homeowners and business property.

# WHY APPRAISAL DISTRICTS EXIST

- Restrict political influence
  - Under the old system, the governing bodies of the taxing units, which determined spending, directly controlled the frequency and quality of reappraisals.

# TEXAS CONSTITUTION

## PRINCIPLES TO PROPERTY TAX SYSTEM

- Taxation must be equal and uniform
- Property must be valued at full market value
- All property is taxable unless exempt by federal law or state constitution
- Property may not be valued above its market value
- All property in county must receive single appraisal
- Single ARB for each Appraisal District

# PROPERTY TAX

**Tax measured**

**According To Value**

**“Ad Valorem”**

# Duties and Responsibilities

## APPRAISAL DISTRICT

**Discovers, Lists and Values Property**

- **Performs periodic Appraisals**
- **Administers Exemptions**
- **Delivers Certified Appraisal Roll to Taxing Units by July 25th**

## APPRAISAL REVIEW BOARD

**Settles Disputes Between the Appraisal District and the Property Owner**

## TAXING UNITS

**Decide Amount and Use of Revenue**

- **Adopt Tax Rates**
- **Calculate Taxes**
- **Generate Tax Bills**
- **Collect Taxes**

**OVERVIEW OF THE  
DALLAS CENTRAL  
APPRAISAL DISTRICT  
(DCAD)**

# **DALLAS CENTRAL APPRAISAL DISTRICT BOARD OF DIRECTORS**

- 👉 DOROTHY BURTON - CHAIRPERSON  
(DALLAS COUNTY)**
- 👉 CHRIS WELLS- VICE CHAIRPERSON  
👉 (CITY OF DALLAS)**
- 👉 JEROME GARZA-SECRETARY  
(DALLAS I S D)**
- 👉 JERRY JONES-DIRECTOR  
(SUBURBAN SCHOOLS)**
- 👉 MICHAEL HURTT-DIRECTOR  
(SUBURBAN CITIES)**
- 👉 JOHN R. AMES- EX OFFICIO MEMBER  
(COUNTY OF DALLAS)**

# RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- ✎ Establish an Appraisal Office
- ✎ Appoint a Chief Appraiser
- ✎ Appoint an Appraisal Review Board
- ✎ Appoint a Taxpayer Liaison Officer
- ✎ Make general policy for the district
- ✎ Provide for necessary services
- ✎ Adopt a budget

# MASS APPRAISAL

*The process of valuing a universe (a large number of properties), as of a given date, using standardized procedures in a manner which allows for statistical testing.*

# CHARACTERISTICS OF MASS APPRAISAL

- UNIVERSE 815,689 PROPERTIES
- GIVEN DATE JANUARY 1, 2009
- STANDARDIZED PROCEDURES ACCEPTED PROFESSIONAL APPRAISAL TECHNIQUES USED TO APPRAISE ALL PROPERTY AT 100% OF MARKET VALUE.
- STATISTICAL TESTING RATIO STUDIES

# UNIVERSE OF THE DALLAS CENTRAL APPRAISAL DISTRICT

*RESIDENTIAL* 643,958

*COMMERCIAL* 72,977

*BPP* 84,633

*LEASED EQUIPMENT /  
AIRCRAFT/UTILITIES* 14,121

*TOTAL* 815,689

*ALL IN DALLAS COUNTY SINCE 2008*

# DATE OF APPRAISAL

## **Section 21.01 Real Property**

**Real Property is taxable by a taxing unit if located in the unit on January 1.**

**Section 21.02 Tangible Personal Property generally except as provided by Section 21.021 and 21.024 of the Code, tangible personal property is taxable by a taxing unit if:**

- 1) It is located in the unit on January 1 for more than a temporary period.**
- 2) It normally is located in the unit, even though it is outside the unit on January 1, if it is outside the unit only temporarily.**
- 3) It normally is returned to the unit between use elsewhere and is not located in any one place for more than a temporary period; or**
- 4) The owner resides (for property not used for business purposes) or maintains his principle place of business in this state (for property used for business purposes) in the unit and the property is taxable in this state but does not have a taxable situs pursuant to Subsection 1-3.**

# MARKET VALUE DEFINED (AS OF JANUARY 1ST)

**The price at which a property would transfer for cash or its equivalent under prevailing conditions if:**

- a) Exposed for sale in the open market within a reasonable time for the seller to find a purchaser;
- b) Both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- c) Both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

## **Limitation on Appraised Value of Residence Homestead**

Section 23.23(a), Property Tax Code

- Other than to include new improvements, the appraised value of a residential homestead may not be increased by more than 10% from its appraised value in the prior tax year, regardless of when it was last reappraised.

# HJR 36 on November 3 Ballot

- Authorizes the appraisal of homestead property (Section 11.13, Tax Code) to be valued at current use not highest and best use.

# THREE APPROACHES TO VALUE

**COST APPROACH**

**DIRECT SALES APPROACH**

**INCOME APPROACH**

# PRICE

- The amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction

# MARKET VALUE

## Texas Property Tax Code

- The price at which a property would transfer for cash or its equivalent under prevailing market conditions if:
  - Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
  - Both the seller and purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use;
  - Both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.
    - Texas Property Tax Code, Section 1.04(7)

# MARKET VALUE

## Uniform Standards of Professional Appraisal Practice

- A type of value, stated as an opinion, that presumes the transfer of a property (i.e., the right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal

– USPAP, 2002 ed.

# MARKET VALUE IRS RULES

- The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specific date and passing of title from seller to buyer under conditions whereby:

# MARKET VALUE (cont.)

## IRS RULES

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
  - 12C.F.R. Part 34.43(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal register 29499, June 7, 1994.

# FEE SIMPLE ESTATES

- Texas Courts have defined Market Value based on Fee Simple Estates.
  - Cherokee Water Co. V. Gregg County Appraisal District (1990)
  - Jagee Corporation V. Dallas Central Appraisal District (1991)

Fee Simple Estate is defined as:

“ absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”

# Typical Property Types that often involve the exchange of the Fee Simple Estate

- Land
- Residential Homes
- Apartment Complexes

# LEASED FEE ESTATES

- Defined as:

“an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.”

# LEASED FEE ESTATES

- Any types of property that involve a contract or lease whereby the owner (Lessor) exchanges use of the property to another party (Lessee) for a consideration involves the exchange of a Leased Fee Estate.
- Typical properties that often involve the exchange of a Leased Fee Estate include:
  - Shopping Centers
  - Retail Buildings
  - Office Buildings
  - Multi-Tenant Industrial Buildings

# LEASED FEE ESTATES

- Purchasers of Leased Fee Estates are often acquiring income-producing properties which are based upon the economic principle of Anticipation. Buyers consider three essential elements in their decision to purchase a Leased Fee Estate:
  - Quantity
  - Quality
  - Durability

# LEASED FEE ESTATES

- Quantity: Usually defined in a legal contract between a lessor and lessee, (i.e. a lease agreement). This is often interchangeably termed “Rent”.
  - Would you pay more for an income-producing property that produces \$90,000 or \$100,000 per year, all other factors being equal?

# LEASED FEE ESTATES

- Quality: The ability of the lessee to pay.
  - Would you pay more for a property that is leased to me or to an individual with a higher net worth?

# LEASED FEE ESTATES

- Durability: The length of time that a lease agreement extends.
  - Would you pay more for a lease that extends three years or 10 years, all other factors being equal?

# Assume the Following:

- Two 100,000 square foot class A office buildings with the exact same physical characteristics and same location
  - Building #1 is 100% occupied, receiving average rents of \$35.00 p.s.f. and all leases have at least 10 remaining with credit worthy tenants. Expenses are \$8.50 psf.
  - Building #2 is 85% occupied, receiving average rents of \$30.00 p.s.f. and the average term left on the leases in place is 5 years with a mix of 50% non worthy and 50% credit worthy tenants. Expenses are \$9.00 psf.
  - Assume cap rates in this market range from 7% - 9%

# Income Calculations

- Building #1:

- Gross Potential Income:  $100,000 \text{ s.f.} \times \$35.00 \text{ p.s.f.} = \$3,500,000$
- Vacancy & Collection Loss: \$0
- Effective Gross Income: \$3,500,000
- Expenses: \$850,000
- Net Operating Income: \$2,650,000
- Cap Rate: 7%
- Indicated Value: \$37,857,142
- Price Per Square Foot = \$388.57 p.s.f.

# Income Calculations

- Building #2:

- Gross Potential Income:  $100,000 \text{ s.f.} \times \$30.00 \text{ p.s.f.} = \$3,000,000$
- Vacancy & Collection Loss: \$450,000
- Effective Gross Income: \$2,550,000
- Expenses: \$900,000
- Net Operating Income: \$1,650,000
- Cap Rate: 8.5%
- Indicated Value: \$19,411,764
- Price Per Square Foot = \$194.12 p.s.f.

# Market Pro Forma

- Market Rent = \$32.00 p.s.f.
- Market Occupancy = 90%
- Market Expenses = \$8.50 p.s.f.
- Market Cap Rate is 8%

Market Value = \$25,375,000

Market Value Per Square Foot = \$253.75  
p.s.f.

# What is the Market Value?

- Building #1 Indicated Value = \$388.57 p.s.f.
- Building #2 Indicated Value = \$194.12 p.s.f.
- Market Assumptions = \$253.75 p.s.f.
- **Market Value = \$253.75 p.s.f.**

# IRS 1031 Exchanges

- Section 1031 of the Internal Revenue Code provides for the following:

“No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment purposes if such property is exchanged solely for property of a like-kind which is to be held for either productive use in trade or business or for investment purposes.”

# 1031 Rules

- In order to complete and effective 1031 exchange you have to understand and follow the rules laid out by the IRS. Failure to comply with these rules can lead to your sale proceeds being considered as taxable.
  - The property you sell and the property you buy must be used in a trade or business or for investment purposes.
  - The proceeds from the sale of your original property must be handled by a qualified intermediary and not by you or someone representing you.
  - Any profit from the original sale that is not reinvested in the new property will be taxed. The level of debt on your new property must be equal to or higher than your level of debt on your old property.
  - You have 45 days after you sell your old property to identify the new property or properties you intend to purchase.

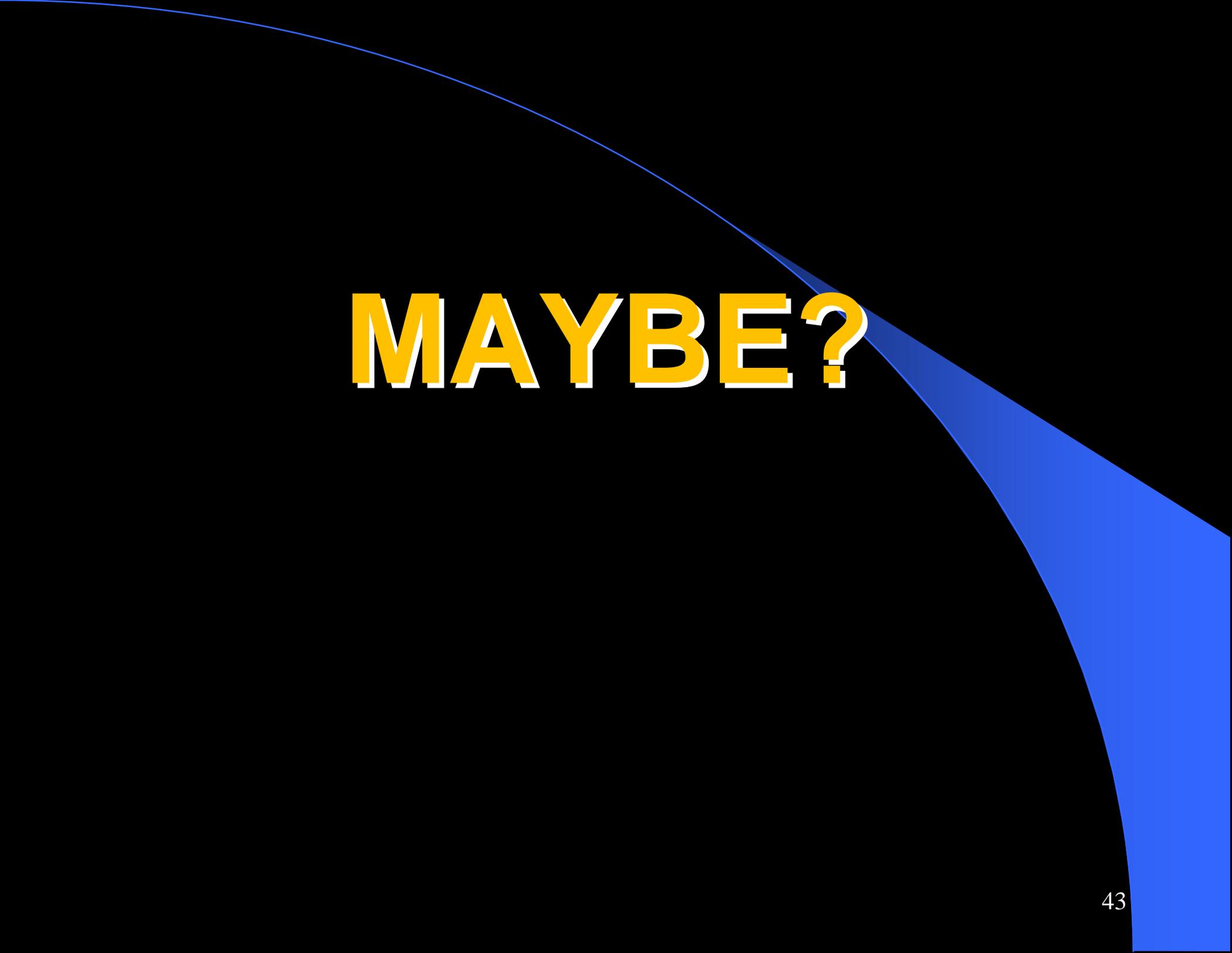
# 1031 Rules (cont.)

- You must purchase your new property within 180 days of the sale of your old property or by the due date for your tax return for the year in which the transfer of the old property takes place, whichever arrives first.
- You may identify three or more properties as possible replacements for your old property.
- If you choose to identify more than three properties, their combined value cannot exceed 200 percent of the value of your old property.
- You must purchase at least 95 percent of the combined value of all the property you list as replacements for your old property.

# Possible Conflicts with Market Value

- Most difficult component of a 1031 exchange is identifying replacement properties within the first 45 days following the sale of the previous property. The IRS is very strict in not allowing extensions.
  - Does the compressed time frame mean the buyer is under duress to identify and buy a property?
  - Will the buyer overpay in order to meet the time frame because it is still better than the income tax consequences?

**Does a 1031 exchange meet  
the test of market value?**

A blue arc starts from the top left and curves towards the right. A blue wedge shape is positioned on the right side, pointing towards the center. The word 'MAYBE?' is centered in the space between the arc and the wedge.

**MAYBE?**

**PRICE DOES  
NOT ALWAYS  
EQUAL VALUE!**

# DCAD APPRAISAL TECHNIQUES

## Residential

- 1) Direct sales approach
- 2) Cost approach

## Commercial

- 1) Direct sales approach
- 2) Cost approach
- 3) Income approach
  - a. direct capitalization
  - b. discounted cash flow

## Business Personal Property

- 1) Cost approach
- 2) Direct sales approach
- 3) Income approach

## Agricultural and Open-Space Land

- 1) Full market value
  - a. direct sales approach
- 2) Productivity value
  - a. income approach

# AUDITS

1. SELF AUDIT OF ALL APPRAISAL DIVISIONS by SPECIAL AUDIT DIVISION
  1. HIRE UNIVERSITY OF TEXAS AT DALLAS TO PERFORM RATIO STUDY ON RESIDENTIAL VALUES
2. TEXAS STATE COMPTROLLER OF PUBLIC ACCOUNTS PERFORMS ANNUAL RATIO STUDY

## RATIO STUDY

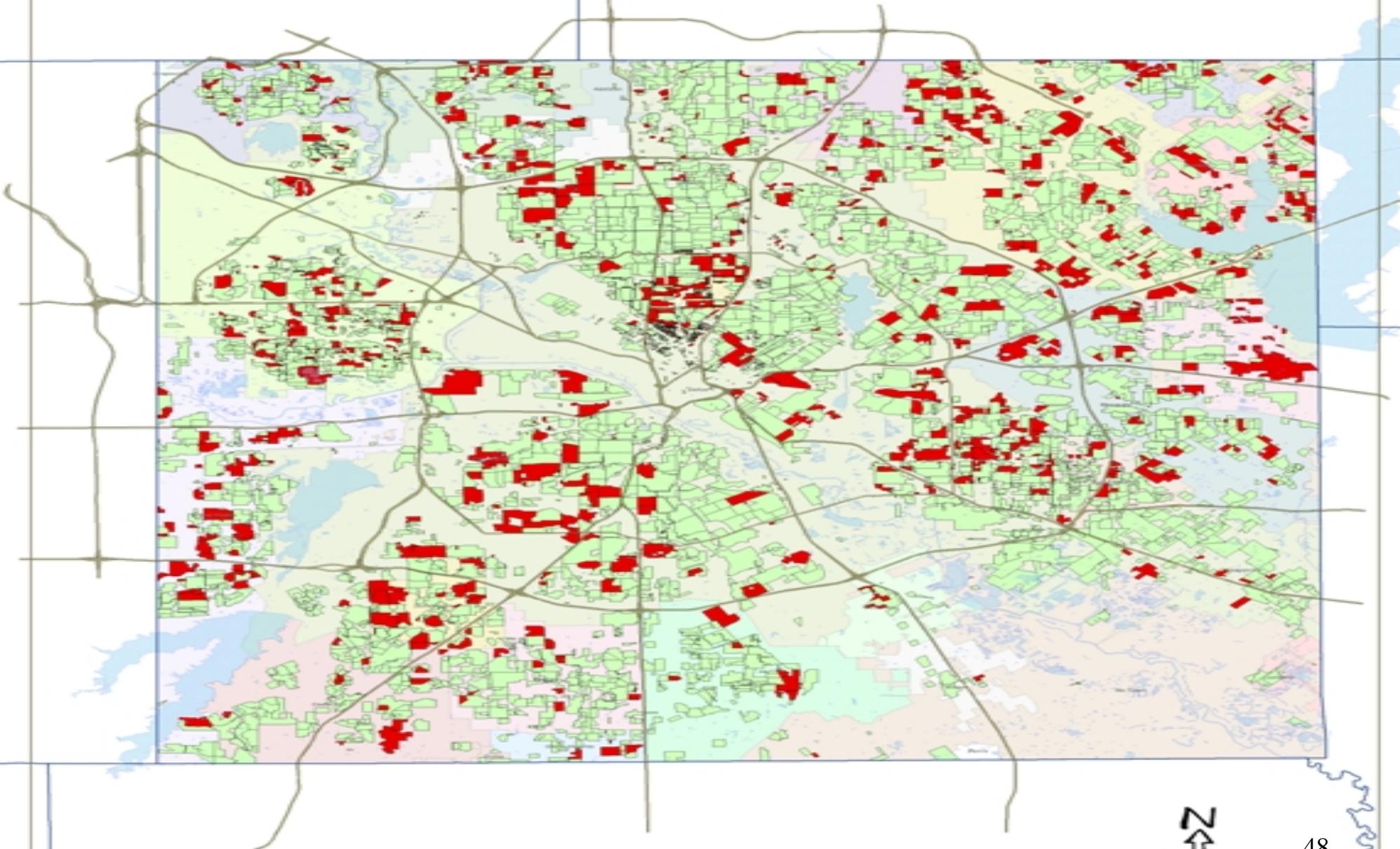
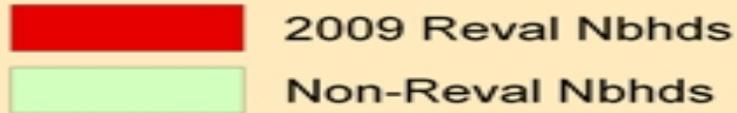
APPRAISED VALUE divided by SALES PRICE

THE CLOSER TO 100% THE MORE ACCURATE THE VALUES

# RATIO STUDIES

2001	UTD	93.0%
	PTD	98.0%
2002	UTD	97.0%
	PTD	98.0%
2003	UTD	97.3%
	PTD	99.0%
2004	UTD	99.4%
	PTD	100.0%
2005	UTD	100.0%
	PTD	100.0%
2006	UTD	99.5%
	PTD	100.0%
2007	UTD	99.3%
	PTD	99.0%
<b>2008</b>	<b>UTD</b>	<b>100.0%</b>
	<b>PTAD</b>	<b>99.0%</b>

# DCAD 2009 Residential Neighborhood Revaluation



2009

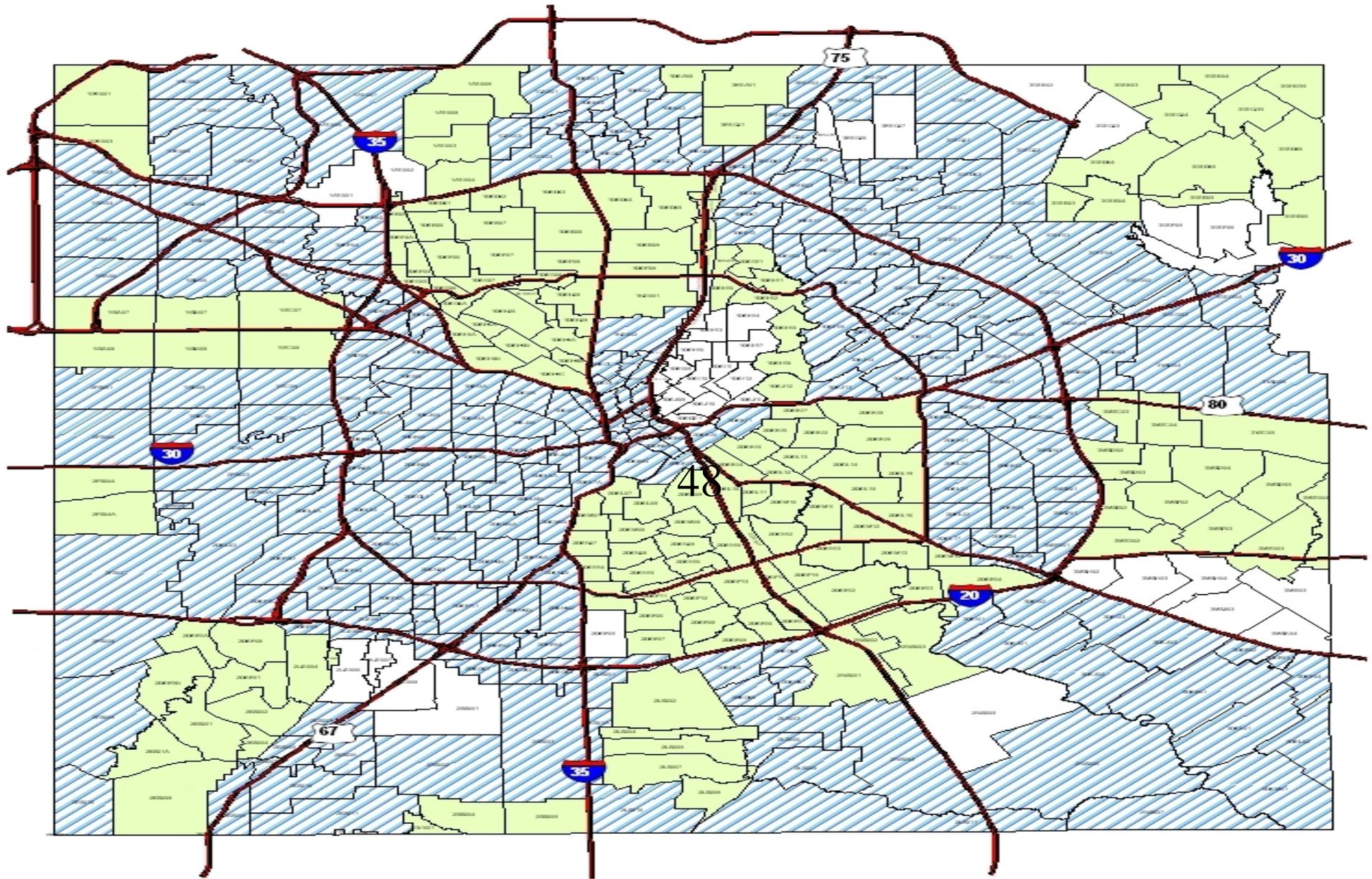
# RESIDENTIAL REAPPRAISAL

- Neighborhood Reappraisal (Ratio Analysis conducted October, January, March)
  - 278,166 Accounts
  - 1,786 Neighborhoods
- Mobile Home Reappraisal
  - 11,376 Mobile Home Accounts
- Building Permits
  - 5,670 New Construction Permits
  - 24,641 Miscellaneous Permits

# 2009 RESIDENTIAL MARKET TRENDS

- New Construction Starts Significantly Down
- Values Flat In Northern Sector
- Values Down In Southern Sector
- Foreclosures Rates Up in Southern Sector
- Days On Market Longer
- Fewer Sales Transactions

# 2009 Commercial Reappraisal Plan



## 2009 Commercial Reappraisal Plan

-  2009 Commercial Land Reappraisal
-  2009 Comm Impt Reappraisal

2009

# COMMERCIAL REAPPRAISAL

- 1/2 Land Market Areas
- 1/3 Improved Markets
- Major Property Types
  - Office
  - Retail
  - Industrial
  - Apartment
- Building Permits
  - 910 New Construction Permits
  - 8,057 Miscellaneous Permits

2009

# COMMERCIAL MARKET TRENDS

- ▶ Extreme Uncertainty In Today's Market
- ▶ Limited Commercial Financing
- ▶ Decline In New Construction
- ▶ Rents & Occupancy Flat To Down
- ▶ Retail Property May See Significant Decline
- ▶ Office Market May See Decline
- ▶ Industrial & Apartment May See Decline
- ▶ **Capitalization Rates Up**
- ▶ Commercial Appraisal Roll Will Likely Decline

# 2009 BUSINESS PERSONAL PROPERTY REAPPRAISAL

● Field Accounts	70,332
● Tenant Accounts	7,486
● Leased Equipment	13,725
● Aircraft	587
● Special Inventory	1,660
● Utilities/Pipelines	408
● Telecom	3,358

# 2009 BUSINESS PERSONAL PROPERTY REAPPRAISAL

- Renditions 65,000  
April 15/May 15
- Exemptions
  - Freeport 1,500 (Process Thru July)
  - Pollution Control 150

# 2009 BUSINESS PERSONAL PROPERTY MARKET TRENDS

- Market Value Flat
  - Less inventory in bad economic times
  - Less reinvestment in new assets
- Taxable Value May Decrease
  - Possible new Freeport exemptions

# 2009 Appraisal Notices

<b>Residential</b>	<b>374,084</b>
<b>Commercial</b>	<b>40,359</b>
<b>Business Personal Property</b>	<b>97,556</b>
<b>Exemption/Agricultural</b>	<b>2,500</b>

**2009 Total Mailed** **514,499**

**2008 Total Mailed** **537,722**

***Variance*** ***-23,223***

ACTIVITIES	2003	2004	2005	2006	2007	2008	2009
Telephone Calls	76,100	65,539	74,683	72,026	64,320	52,864	56,935
Walk-Ins	16,176	15,108	18,295	19,258	18,519	18,669	19,603
Informal Hearings	32,973	29,642	36,524	40,380	36,250	39,733	41,349
Protests Received	83,024	83,745	90,913	100,435	97,528	108,329	113,654
Protests Scheduled	82,417	83,485	90,451	99,107	103,820	114,538	120,006
Hearings Held	37,612	30,994	34,064	37,720	39,378	46,710	53,194
Hearing Days	39	40	42	45	43	42	38
ARB Panels Utilized	686	630	526	748	1,189	1,465	1,557
ARB Packets (accounts)	62,570	66,178	72,448	65,982	44,611	71,637	83,998
Reschedules	NA	NA	NA	NA	NA	8,983	11,259
Late Appeals	800	1,302	651	802	614	562	288
Appeal Letters	632	767	854	628	579	387	386
# of Appraisal Notices Mailed	542,372	560,404	597,327	613,092	602,670	547,671	514,499

# DCAD CERTIFICATION

- Number of Protests Filed: 113,654
- Total Value of all Properties:  
\$\$214,737,171,130
- Total Value, as Determined by the Chief Appraiser, of Properties with Protests not yet Determined: \$1,472,100,680
- Percentage in Dispute: 0.6903%
- Date Appraisal Roll Certified: July 23, 2009

# CHANGES BY CATEGORY COUNTY-WIDE

	2008	2009
● <b>COMMERCIAL:</b>		
– Market Value:	+13.06%	-4.43%
– Taxable Value:	+9.69%	-7.10%
● <b>BUSINESS PERSONAL PROPERTY</b>		
– Market Value:	+1.60%	+0.29%
– Taxable Value:	+3.64%	-1.55%
● <b>RESIDENTIAL:</b>		
– Market Value:	+4.87%	-1.84%
– Taxable Value:	+5.82%	-1.19%
● <b>OVERALL:</b>		
– Market Value:	+7.33%	-2.52%
– Taxable Value:	+6.92%	-3.50%

# HIGHLIGHTS OF 2009 CERTIFICATION

	MARKET	TAXABLE
● DALLAS COUNTY:	-2.52%	-3.50%
● CITY OF DALLAS:	-2.90%	-3.63%
● DALLAS ISD:	-2.99%	-3.47%

# HIGHS AND LOWS

● CITIES:	MARKET	TAXABLE
– WILMER:	+41.67%	+44.68%
– ADDISON:	-8.66%	-10.91%
● SCHOOLS:		
– SUNNYVALE:	+15.00%	+12.56%
– LANCASTER:	-7.03%	-9.43%
● SPECIAL DISTRICTS:		
– D.C. FCD #1:	+26.00%	+22.33%
– LAN. MUD #1:	-25.54%	-25.67%

# QUESTIONS and ANSWERS



**THANK YOU**



CITY OF DALLAS

## Memorandum

Date: October 23, 2009

To: Budget, Finance and Audit Committee:  
Jerry Allen (Chair), Ann Margolin (Vice Chair), Vonciel Jones Hill, Angela Hunt,  
Delia D. Jasso, Ron Natinsky, David A. Neumann

Subject: Real Property Acquisition Procedures and Requirements

On Monday, October 26, you will be briefed on City Code requirements and procedures for acquiring real property for public purposes. A copy of the briefing is attached for your review.

If you need further information, please call Theresa O'Donnell at 214-670-4127.



A.C. Gonzalez  
Assistant City Manager

c: The Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Thomas Perkins, City Attorney  
Deborah Watkins, City Secretary  
Craig Kinton, City Auditor  
Judge C. Victor Lander, Judiciary  
Ryan S. Evans, First Assistant City Manager  
Forest Turner, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Dave Cook, Chief Financial Officer  
Theresa O'Donnell, Director of Sustainable Development and Construction  
Jeanne Chipperfield, Director, Office of Financial Services  
Helena Stevens-Thompson, Assistant to the City Manager

# REAL PROPERTY ACQUISITION PROCEDURES and REQUIREMENTS

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Budget, Finance & Audit Committee  
October 26, 2009



# Purpose

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- Provide overview of City's current procedures and requirements for real property acquisitions

# City Code Requirements

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- Sec. 2-11.2
  - Addresses acceptance of Conveyance or Acquisition by Eminent Domain where consideration is \$10,000 or less
  - City Council action not required
  - Short Form Resolution administratively processed
- Sec. 2-11.3
  - Addresses real property acquisitions where consideration exceeds \$500,000
  - Consideration in excess of \$500,000 requires two independent fee appraisals
- Sec. 12A-1.3
  - Prohibits City officials and employees from any financial interest, direct or indirect, or engagement in any business, transaction, or professional activity

# PROCEDURES

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- Acquisition requests received from other departments
- Determination made on type of interest to be acquired
  - Fee interest
  - Easement right
- Property value determined
  - Independent Fee Appraisal obtained for acquisition of:
    - Fee interest
    - Properties owned by City officials and employees
    - Properties with potential eminent domain proceedings
  - Easement right values may be determined by:
    - Independent appraisal
    - Dallas, Collin or Denton County Appraisal Districts
    - Justified by current comparable sales

# PROCEDURES, continued

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- Eminent Domain Proceedings
  - When a fair market value cannot be agreed upon, eminent domain proceedings initiated
  - In accordance with City Code, the measure of damages for the condemnation is the local market value of the property at the time of the Commissioners' hearing
- Commissioners' Hearing
  - A Commissioners' Hearing comprised of three disinterested parties appointed by County Judge
  - City and property owner each present their facts to the Commissioners as to value
  - Commissioners make an award
  - Commissioners award can be appealed

# QUESTIONS

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# Memorandum



CITY OF DALLAS

DATE October 23, 2009

TO Members of the Budget, Finance & Audit Committee:  
Chair Jerry Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Angela Hunt, Delia Jasso, Ron Natinsky, David Neumann

SUBJECT Annual Investment Policy Review and Discussion of Investment Strategies

The October 26, 2009 Budget, Finance & Audit meeting agenda includes a briefing of the Annual Investment Policy Review and Investment Strategies. Attached is a copy of the briefing, the redline copy of the recommended 2009 Investment Policy (to show changes from the 2008 policy) and the recommended 2009 Investment Policy.

A handwritten signature in black ink, appearing to read 'D. Cook'.

David Cook  
Chief Financial Officer

c: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Ryan S. Evans, First Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Craig Kinton, City Auditor

**CITY OF DALLAS**  
**ANNUAL INVESTMENT POLICY REVIEW**  
**DISCUSSION OF INVESTMENT STRATEGIES**

**BUDGET, FINANCE & AUDIT**  
**COMMITTEE**

**October 26, 2009**

# BACKGROUND

- City Council adopted the original investment policy in 1987.
- The Texas Public Funds Investment Act (PFIA) requires City Council, not less than annually, to review the investment policy and approve any changes.
- City Council approved the current investment policy on November 10, 2008.

# BACKGROUND

- Changes in the investment policy are typically made:
  - To incorporate amendments to the Texas Public Funds Investment Act
  - To improve management of the City's investments
  - To increase diversification and reduce risk
  - To reflect organizational changes within the City

# BACKGROUND

- 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):

## ■ Section 1 – Policy

- Replace “the best commensurate yield” with “optimize interest earnings to the maximum extent possible” to match investment strategy.

# INVESTMENT POLICY AMENDMENTS

## ■ Section 2 – Scope

- Clarify that City-established non-profit corporations follow the City's investment policy if the corporation has not adopted its own policy. Clarify that additional investment authority may be provided by governing documents authorizing the issuance of bonds either by the City or by a non-profit corporation established by the City.

# INVESTMENT POLICY AMENDMENTS

## ■ Section 3 – Objective

- Revise Section 3.1 (“Safety”) to include methods to mitigate credit risk and interest rate risk.
- Revise Section 3.2 (“Liquidity”) to include methods to maintain sufficient liquidity.
- Revise section 3.3 (“Yield”) to replace “the best yield” with “a market rate of return” to match investment strategy.

# INVESTMENT POLICY AMENDMENTS

## ■ Section 8 – Authorized and Suitable Investments

- Revise Section 8.2 to replace “City Council-approved depository” with “a bank or credit union that has its main office or branch office within the City”.
- Revise Section 8.4 to move collateral requirements for repurchase agreements to the section authorizing investment. Revise eligible collateral and collateral margins for repurchase agreements to reflect current market conditions.

# INVESTMENT POLICY AMENDMENTS

- **Section 8 – Authorized and Suitable Investments**
  - Add Section 8.5 to authorize a securities lending program, which will comply with all PFIA and Internal Revenue Code requirements related to counterparties, loan terms, eligible collateral, safekeeping of collateral, and investment of collateral.

# INVESTMENT POLICY AMENDMENTS

## ■ Section 11 – Collateralization of Deposits

- Revise eligible collateral and collateral margins to reflect current market conditions.
  - Add mortgage-backed securities issued directly by a U.S. Government agency or instrumentality.

## ■ Section 17 – Investment Strategies

- Revise Section 17.1 (“Investment Pool Strategy”) to replace “the best feasible yield” with “a market rate of return” to match investment strategy.

# AUTHORIZE TexSTAR

- Authorize by separate resolution an additional local government investment pool to increase diversification
- Texas Short Term Asset Reserve Program (TexSTAR)
  - Established in 2002, TexSTAR has 695 participants and over \$5 billion in assets
  - Rated AAAm by Standard & Poor's
  - Functions as a money market mutual fund investing in U.S. Government securities
  - Joint venture between JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc.

# INVESTMENT STRATEGIES

- “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.”

Chapter 2256.005(d), Texas Public Funds Investment Act

# INVESTMENT STRATEGIES

- Cash flow needs determine the appropriate investment strategy
  - Short term – current needs (0 to 1 year)
  - Medium term – liability matching horizon (1 to 3 years)
  - Long term – dedicated purpose (3 to 5 years)

# INVESTMENT POOL STRATEGY

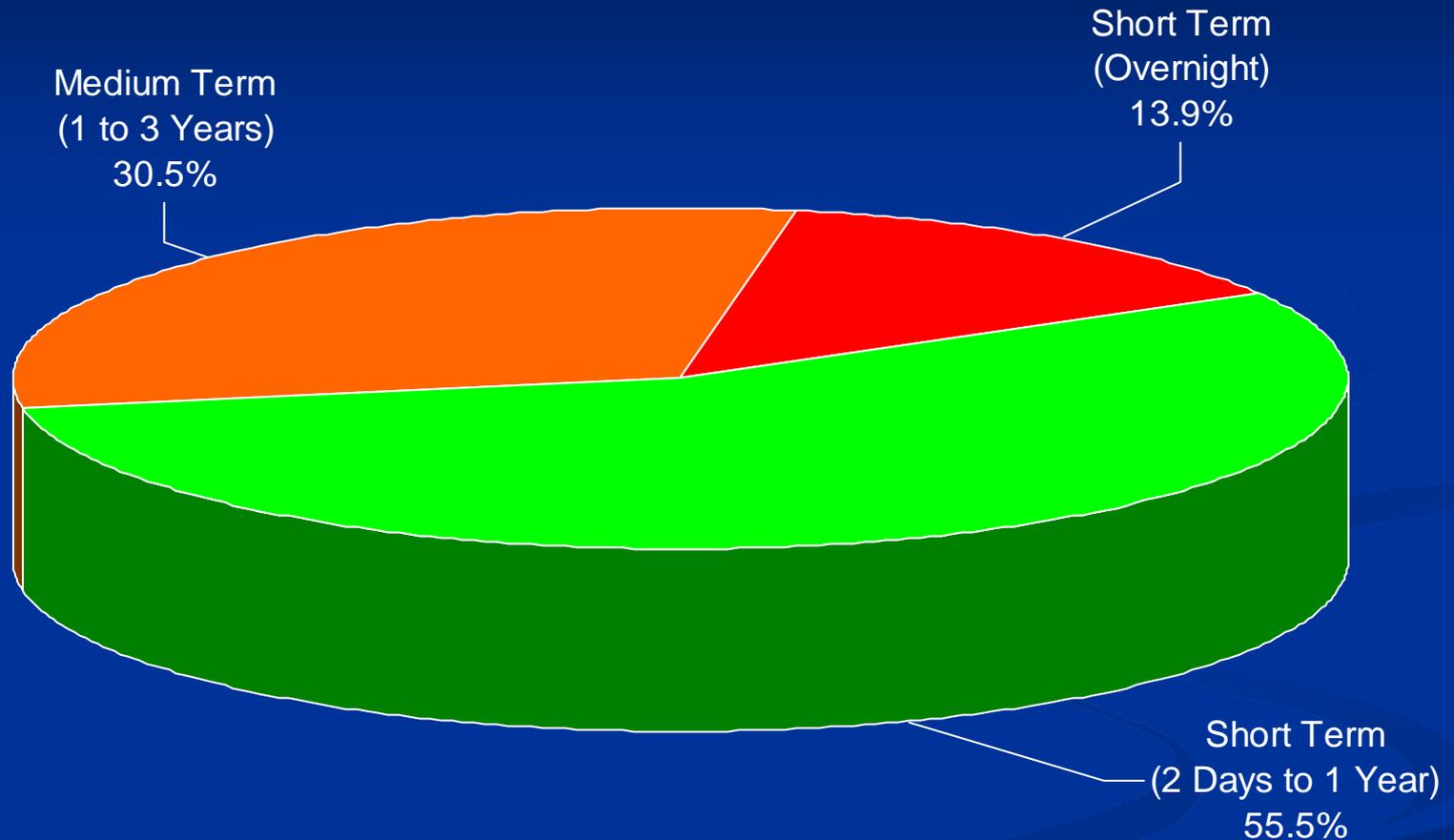
- The majority of City revenues are pooled internally for investment
  - Tax receipts
  - Enterprise fund revenues
  - Fine and fee revenues
  - Some bond proceeds, grants and gifts

# INVESTMENT POOL STRATEGY

## ■ Objectives

- Keep adequate liquidity to meet short term needs
  - Money market mutual funds
  - Local government investment pools
  - Short term securities with maturities of less than 1 year
- Match medium term investments to known future cash flow needs (payroll, debt service payments, etc.)
  - U.S. treasury and agency securities
- Limit weighted average maturity of the pool to 1.5 years

# INVESTMENT POOL STRATEGY PORTFOLIO BY MATURITY AS OF 9/30/09



# BOND RESERVE FUND STRATEGY

- Some bond reserve funds are invested separately
- Objectives
  - Use long term investments to optimize interest earnings
    - Subject to rebate under federal tax regulations
  - Keep investment market values at levels required by bond ordinances
    - U.S. treasury and agency securities
  - Keep investment maturities less than final maturity of the bonds
    - Investment policy limits maximum maturity to 5 years

# Key Dates

- Investment Committee review and recommendation –  
October 21, 2009
- Budget, Finance & Audit Committee briefing –  
October 26, 2009
- Council consideration of the City's investment policy  
and resolution authorizing TexSTAR –  
November 9, 2009



# CITY OF DALLAS

## INVESTMENT POLICY

**As adopted by City Council  
November 10 ~~9~~, 2008 2009**

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## 1.0 Policy

It is the policy of the City of Dallas to invest public funds in a manner which will provide maximum security and optimize interest earnings to the maximum extent possible and the best commensurate yield 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.

## 2.0 Scope

This Policy governs the investment of all funds of the City except those that are not managed by authority of City Council identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act as instrumentalities of the City on behalf of the City in accordance with State law, Council recommends that the City's Investment Policy be followed; 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 Tax Reform Act Internal Revenue Code of 1986, as amended, 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 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 pooled funds portfolio will result in maximum interest earnings retention under the provisions of the Tax Reform Act Internal Revenue Code of 1986, as amended.
  - 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 Water Utilities commercial paper notes (e.g., commercial paper notes issued for the benefit of Dallas Water Utilities).
- 2.2 Funds not governed by this Policy include:
  - 2.2.1 Employees' Retirement Fund
  - 2.2.2 Firemen, Policemen, and Fire Alarm Operator's Dallas Police and Fire Pension Funds System
  - 2.2.3 Deferred Compensation Funds
  - 2.2.4 Hale-Davis and W.W. Samuell Express Charitable Trusts

### 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. To attain this objective, investment in only high quality securities and diversification are required in order that potential losses on individual securities do not exceed the income generated from the remainder of the 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 the best yield-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**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- 6.1 Officers and employees involved in the investment process shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.
- 6.2 Officers and employees involved in the investment process must file a disclosure statement with the Texas Ethics Commission and City Council if:
  - a) the officer or employee has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
  - b) the officer or employee 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 officer or employee involved in the investment process has a personal business relationship with a business organization if:
  - a) the officer or employee 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 officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or

- c) the officer or employee 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 every two years. 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 Public Funds Investment 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).

~~Investments not listed below, including collateralized mortgage obligations and reverse repurchase agreements, are strictly prohibited. In addition, the Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. (moved to end of Section 8.0)~~

~~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. (moved to end of Section 8.0)~~

~~The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating. (moved to end of Section 8.0)~~

- 8.1 Direct obligations of the United States, its agencies or instrumentalities. Unless backed by the full faith and credit of, or insured or guaranteed by the United States, obligations of agencies and instrumentalities must be rated in the highest category as to investment quality by a nationally recognized investment rating firm.

The City will restrict investments in eligible obligations 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 ~~City~~ Council-approved depository (as described below) 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.

~~A City Council-approved depository is a depository institution that has its main office or a branch office in Texas. 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 that has its main office or branch office ~~in Texas 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 Public Funds Investment Act.

- 8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Public Funds Investment Act, provided Prior to investment in a repurchase agreement the City has 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 obligations in accordance with Section 11.0 herein of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Public Funds Investment 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 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, as amended;
  - c) A loan made under the program may be secured by cash, irrevocable letters of credit issued by a bank that is organized and exists under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, or by securities issued by the U.S. Government or its agencies and instrumentalities as described in Section 11.0 of this Policy. 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:
- 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) 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) have provided the City with a prospectus and other information required by the Securities Exchange Act of 1934 of 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 Chapter 2256 (Public Funds Investment Act) of the Government Code 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) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service; and
  - d) have provided the City with an offering circular and other information required by the Public Funds Investment 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.

Investments not listed below, including collateralized mortgage obligations and reverse repurchase agreements, are strictly prohibited. In addition, the 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. The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

#### **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 Public Funds Investment Act.

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 Public Funds Investment 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 (Collateral for Public Funds) 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.

~~The City requires that all securities purchased under the terms of a repurchase agreement be assigned to the City in accordance with applicable law. Dealers and financial institutions wishing to transact repurchase agreements with the City will be required to sign the City's Master Repurchase Agreement which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution, and conditions for agreement termination. (moved to Section 8.4)~~

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:

<u>Eligible Collateral</u>	<u>Collateral Ratios (Repurchase Agreement Collateral Moved to Section 8.4)</u>	
	<u>Deposits</u>	<u>Repurchase Agreements</u>
1) Direct obligations of the United States of America; or		
2) 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 of America;		
3) Direct obligations of the Federal National Mortgage Assoc. and the Federal Home Loan Mortgage Corp.:		
a) maturing in less than one year	102%	102%
b) maturing in one to ten years	105%	105%
c) maturing in more than ten years	110%	105%

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

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to ~~meet the depository collateral required amount~~ 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 portfolios, in aggregate, will be diversified to limit market and credit risk by observing the following limitations:

	<b>Maximum Stated Maturity (1)</b>	<b>Issuer Limitations</b>
U.S. Treasuries	5 Years	100% of the total portfolio 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 total portfolio 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 portfolio may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Money Market Mutual Funds	NA	The City may not own more than the lesser of \$100 million or 5% of the total assets of any one fund.
Local Government Investment Pools	NA	The City may not own more than the lesser of \$200 million or 5% of the total assets of any one pool.
Certificates of Deposit	1 year	The City may not own more than \$50 million of any single financial institution's certificates of deposit at any one time.

In addition to the above limitations the City's Investment Pool shall be diversified by market sector as follows:

	<b>Maximum Percentage of Investment Pool</b>
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 15% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	25%
Certificates of Deposit	20%

\*Excluding flexible repurchase agreements for bond proceeds

- (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 City Controller,~~ 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 the best feasible yield 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;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 principal and/or interest 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;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 invested as separate non-pooled portfolios in order to maximize return. The objectives of Endowment Portfolios 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy.
- 17.5 **Commercial Paper Funds Strategy** - Water Utilities 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 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.

- 17.6 Trinity City 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 Public Funds Investment Act. 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 (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 ~~Finance and Audit Committee~~ 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 Chapter 2256.023 of the Texas Government Code (Public Funds Investment 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 ~~9, 2009~~ in accordance with Chapter 2256 of the Texas Government Code.

## 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.

**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.

**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, currently up to \$300,000 per depositor (\$100,000 for non-interest bearing demand deposits, \$100,000 for interest bearing demand, savings or time deposits and a separate \$100,000 for interest and sinking funds).

**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

**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).



# CITY OF DALLAS

## INVESTMENT POLICY

**As adopted by City Council  
November 9, 2009**

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## **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.

## **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, 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 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 pooled funds portfolio will result in maximum interest earnings retention under the provisions of the Internal Revenue Code of 1986, as amended.
  - 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 (e.g., commercial paper notes issued for the benefit of Dallas Water Utilities).
- 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 Hale-Davis and W.W. Samuell Express Charitable Trusts

### 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**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- 6.1 Officers and employees involved in the investment process shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.
- 6.2 Officers and employees involved in the investment process must file a disclosure statement with the Texas Ethics Commission and City Council if:
  - a) the officer or employee has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
  - b) the officer or employee 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 officer or employee involved in the investment process has a personal business relationship with a business organization if:
  - a) the officer or employee 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 officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or
  - c) the officer or employee 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 every two years. 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 Public Funds Investment 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. Unless backed by the full faith and credit of, or insured or guaranteed by the United States, obligations of agencies and instrumentalities must be rated in the highest category as to investment quality by a nationally recognized investment rating firm.

The City will restrict investments in eligible obligations 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 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 Public Funds Investment Act.

- 8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Public Funds Investment 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 obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Public Funds Investment 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 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, as amended;
  - c) A loan made under the program may be secured by cash, irrevocable letters of credit issued by a bank that is organized and exists under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, or by securities issued by the U.S. Government or its agencies and instrumentalities as described in Section 11.0 of this Policy. 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:
- 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) 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) have provided the City with a prospectus and other information required by the Securities Exchange Act of 1934 of 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 Chapter 2256 (Public Funds Investment Act) of the Government Code 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) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service; and
  - d) have provided the City with an offering circular and other information required by the Public Funds Investment 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. The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

## **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 Public Funds Investment Act.

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 Public Funds Investment 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 (Collateral for Public Funds) 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 for investment under the Public Funds Investment 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 portfolios, in aggregate, will be diversified to limit market and credit risk by observing the following limitations:

	<b>Maximum State Maturity<sup>1</sup></b>	<b>Issuer Limitations</b>
U.S. Treasuries	5 Years	100% of the total portfolio 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 total portfolio 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 portfolio 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 pool.
Local Government Investment Pools	N/A	The City may not own more than the lesser of \$200 million or 5% of the total assets of any one pool.
Certificates of Deposit	1 Year	The City may not own more than \$50 million of any single financial institution's certificates of deposit at any one time.

In addition to the above limitations the City's Investment Pool shall be diversified by market sector as follows:

	<b>Maximum Percentage of Investment Pool</b>
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 15% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	25%
Certificates of Deposit	20%

\* Excluding flexible repurchase agreements for bond proceeds.

- (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;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 principal and/or interest 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;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 invested as separate non-pooled portfolios in order to maximize return. The objectives of Endowment Portfolios 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy.
- 17.5 Commercial Paper Funds Strategy - Water Utilities 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 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 Public Funds Investment Act. 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) manage market and credit risk through diversification; and
  - d) attain the best feasible yield 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 (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 Chapter 2256.023 of the Texas Government Code (Public Funds Investment 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 9, 2009 in accordance with Chapter 2256 of the Texas Government Code.

## 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.

**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.

**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, currently up to \$300,000 per depositor (\$100,000 for non-interest bearing demand deposits, \$100,000 for interest bearing demand, savings or time deposits and a separate \$100,000 for interest and sinking funds).

**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

**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).

# Memorandum



CITY OF DALLAS

DATE October 23, 2009

TO Members of the Budget, Finance & Audit Committee:  
Chair Jerry Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Angela Hunt, Delia Jasso, Ron Natinsky, David Neumann

SUBJECT Quarterly Investment Report as of September 30, 2009

The City of Dallas Investment Policy, in accordance with the Texas Public Funds Investment Act, requires that the City Council and City Manager receive quarterly investment reports. The purpose of this report is to provide a means for Council members, Council committee members and staff to regularly review and monitor the City's investment position and to demonstrate compliance with the City's Investment Policy and the Public Funds Investment Act. Detail and summary reports on each of the City's portfolios are included as well as summary information on the portfolio as a whole. Trade activity for the quarter is shown on page five and includes the percentages of opportunities offered and awarded to M/WBE dealers.

For the quarter ended September 30, 2009 the City's individual portfolios and the combined portfolio are in compliance with the relevant provisions of the City's Investment Policy and the Public Funds Investment Act.

Additionally, this memo provides an updated status of distributions to the City from the Reserve Primary Fund. The City's investment in the Reserve Primary Fund was frozen on September 17, 2008, when the Fund suffered losses in the value of some of its investments. As of today, the City has received a total of \$1,907,513 from The Reserve Primary Fund. As reflected on the following table, the remaining balance is now \$167,708.

### Distributions from The Reserve Primary Fund

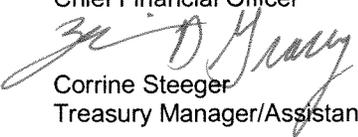
\*Balance as of September 17, 2008: \$ 2,075,221

Distribution Date	Amount	Remaining Balance
10/31/08	\$ 1,052,944	\$ 1,022,277
12/03/08	583,243	439,034
02/20/09	137,672	301,362
04/17/09	93,155	208,207
10/02/09	40,499	167,708

\* Includes principal and interest accrued from September 1 through September 14, 2008.

  
David Cook  
Chief Financial Officer

  
Edward R. Scott  
City Controller

  
Corrine Steeger  
Treasury Manager/Assistant Director

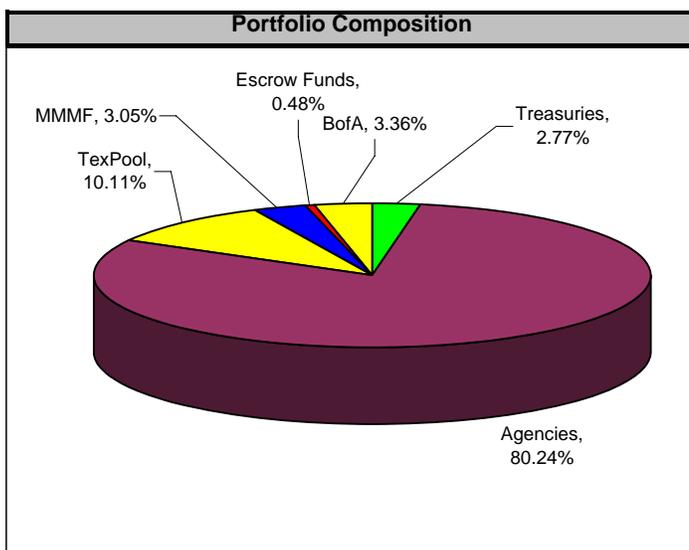
c: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Ryan S. Evans, First Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Craig Kinton, City Auditor

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**City of Dallas**  
**Cash and Investment Summary**  
**September 30, 2009**

Portfolio Summary			
	09/30/09	06/30/09	Net Change
Face Value	\$ 1,736,323,693	\$ 1,940,018,519	\$ (203,694,825)
Book Value	1,755,873,356	1,964,717,270	(208,843,914)
Market Value	1,772,511,259	1,986,992,596	(214,481,337)
Accrued Interest	10,354,374	22,305,296	(11,950,922)
Cash Value	1,782,865,632	2,009,297,892	(226,432,260)
Unrealized Gain (Loss)	16,637,902	22,275,326	(5,637,424)
Weighted Average Maturity (days)	273	320	-47
Buy Yield	1.92%	2.36%	-0.43%

Investment Summary by Type		
Cash and Investments by Type	Book Value	% of Portfolio
<b>U.S. Government Treasury Securities</b>	<b>\$ 50,254,371</b>	<b>2.77%</b>
<b>U.S. Government &amp; Agency Securities</b>		
Federal Farm Credit Bank (FFCB)	333,366,309	18.35%
Federal Home Loan Bank (FHLB)	477,796,756	26.30%
Federal Home Loan Mortgage Corporation (FHLMC)	326,132,518	17.95%
Federal National Mortgage Association (FNMA)	320,591,709	17.65%
<b>Total U.S. Government &amp; Agency Securities</b>	<b>\$ 1,457,887,292</b>	<b>80.24%</b>
<b>Local Government Investment Pool (TexPool)</b>	<b>\$ 183,612,116</b>	<b>10.11%</b>
<b>Money Market Mutual Funds</b>	<b>\$ 55,442,052</b>	<b>3.05%</b>
<b>Escrow Funds (BONY Mellon)</b>	<b>\$ 8,677,525</b>	<b>0.48%</b>
<b>Total Investments</b>	<b>\$ 1,755,873,356</b>	<b>96.64%</b>
<b>Closing Available Cash*</b>	<b>\$ 60,957,207</b>	<b>3.36%</b>
<b>Total Cash and Investments</b>	<b>\$ 1,816,830,563</b>	<b>100.00%</b>



**Maturity Schedule**

Mths to Maturity	%
0 - 3	19.3%
3 - 6	20.7%
6 - 9	6.4%
9 - 12	22.9%
12 - 24	29.7%
24 - 60	1.1%

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City of Dallas, Texas  
Investment Summary by Portfolio Type  
For the quarter ending September 30, 2009

By Portfolio	ID #	Face Value	Book Value	Market Value	Accrued Interest	Cash Value (Mkt Val + Acc Int)	*Unrealized Gain(Loss)	Weighted Average Maturity (days)	Buy Yield
Investment Pool	1	\$ 1,644,267,770	\$ 1,662,806,329	\$ 1,678,394,238	\$ 9,768,872	\$ 1,688,163,109	\$ 15,587,909	272	1.93%
Convention Center Reserve	2	18,299,000	18,442,769	18,627,808	150,511	18,778,319	185,039	218	1.83%
Water Reserve	3	49,552,000	50,293,811	51,035,043	359,471	51,394,514	741,232	433	2.38%
Art Endowment	4	2,500,000	2,545,410	2,558,594	38,958	2,597,552	13,184	227	1.19%
Ida Green Library Fund	5	1,000,000	999,872	1,009,063	625	1,009,688	9,190	351	1.51%
DWU Commercial Paper Program	10	7,103,398	7,103,398	7,103,398	1,227	7,104,625	0	1	0.21%
Sports Arena Reserve 1998A	12	0	0	0	0	0	0	0	0.00%
Sports Arena Reserve 1998B	13	2,739,000	2,757,318	2,846,848	16,738	2,863,586	89,530	320	4.19%
Trinity Parkway Escrow	14	4,127,159	4,127,159	4,127,159	0	4,127,159	0	1	0.10%
Cityplace TIF Reserve	15	2,185,000	2,246,925	2,258,744	17,972	2,276,715	11,819	301	1.25%
Oncor Electric Escrow	16	4,550,366	4,550,366	4,550,366	0	4,550,366	0	1	0.10%
<b>Total Portfolio</b>		<b>\$ 1,736,323,693</b>	<b>\$ 1,755,873,356</b>	<b>\$ 1,772,511,259</b>	<b>\$ 10,354,374</b>	<b>\$ 1,782,865,632</b>	<b>\$ 16,637,902</b>	<b>273</b>	<b>1.92%</b>
Cash in Bank**		\$ 60,957,207	\$ 60,957,207	\$ 60,957,207					
<b>Total Cash &amp; Investments</b>		<b>\$ 1,797,280,900</b>	<b>\$ 1,816,830,563</b>	<b>\$ 1,833,468,465</b>					

Note: For all non-pooled portfolios, these values do not exactly correspond to the accounting balances for the respective funds. This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool (see individual portfolio summary pages for Investment Pool balances).

\* Unrealized gain/loss is the difference between the market value and book value and does not represent an actual gain or loss. Gains and losses are realized only when a security is sold prior to maturity. Since it is the City's practice to hold investments until they mature, the temporary gains and losses shown above are unlikely to be realized.

\*\* 100% of all non-interest bearing bank deposits are FDIC Insured through December 31, 2009. Balance continue to stay higher than normal due to an earnings credit rate offered by BofA (currently 0.85%), which results in a higher savings on bank fees than interest earned on the City's Money Market Mutual Funds and TexPool.

City of Dallas, Texas  
Investment Summary by Security Type & Agency Issuer  
For the quarter ending September 30, 2009

**All Portfolios Combined**

By Security Type	Face Value	Book Value	Market Value	*Unrealized Gain(Loss)	Weighted Average Maturity (days)	Buy Yield	% of Total Portfolio
Money Market Mutual Funds and Pools	\$ 247,731,693	\$ 247,731,693	\$ 247,731,693	\$ -	1	0.25%	13.64%
Treasury Securities	50,000,000	50,254,371	50,609,376	355,005	138	2.11%	2.77%
Agency Securities	1,438,592,000	1,457,887,292	1,474,170,189	16,282,897	325	2.20%	80.24%
Total Portfolio	\$ 1,736,323,693	\$ 1,755,873,356	\$ 1,772,511,259	\$ 16,637,903	273	1.92%	96.64%
Cash In Bank**	\$ 60,957,207	\$ 60,957,207	\$ 60,957,207				3.36%
Total Cash and Investments	\$ 1,797,280,900	\$ 1,816,830,563	\$ 1,833,468,465				100.00%

Agency Securities By Issuer	Face Value	Book Value	Market Value	*Unrealized Gain(Loss)	% of Total Portfolio	S&P/Moody's Ratings
Federal National Mortgage Assoc. (FNMA)	\$ 317,506,000	\$ 320,591,709	\$ 323,895,379	\$ 3,303,670	17.65%	AAA/Aaa
Federal Home Loan Mortgage Corp. (FHLMC)	321,483,000	326,132,518	329,357,223	3,224,705	17.95%	AAA/Aaa
Federal Home Loan Bank (FHLB)	470,645,000	477,796,756	483,993,434	6,196,679	26.30%	AAA/Aaa
Federal Farm Credit Bank (FFCB)	328,958,000	333,366,309	336,924,153	3,557,843	18.35%	AAA/Aaa
Total Agency Securities	\$ 1,438,592,000	\$ 1,457,887,292	\$ 1,474,170,189	\$ 16,282,897	80.24%	AAA/Aaa

\* Unrealized gain/loss is the difference between the market value and book value and does not represent an actual gain or loss. Gains and losses are realized only when a security is sold prior to maturity. Since it is the City's practice to hold investments until they mature, the temporary gains and losses are unlikely to be realized.

\*\* See Note on page 3.

City of Dallas, Texas  
 Activity Summary - All Portfolios Combined  
 For the quarter ending September 30, 2009

	Trade Activity		Dealer Activity		Percent of Total Awarded		
	Face Value		Face Value		4Q FY09	FY to Date	
			Offered	Awarded			
Beginning Balance	\$	1,940,018,519					
Purchased/Deposited		354,234,615	Primary Dealers (1)	\$ 35,370,000	\$ 19,790,000	66.43%	40.70%
Matured/Withdrew		(555,139,440)	MWBE Secondary Dealers	44,000,000	10,000,000	33.57%	49.28%
Called		-	Other Secondary Dealers	12,790,000	-	0.00%	10.02%
Sold		(2,790,000.00)		\$ 92,160,000 (2)	\$ 29,790,000 (3)	100.00%	100.00%
Ending Balance	\$	<u>1,736,323,693</u>					

(1) Primary dealers report directly to the Market Reports Division of the New York Federal Reserve Bank and must meet minimum volume and capital guidelines. Primary dealers are generally able to offer the best price because they have access to the inside market and are able to inventory securities. There are no MWBE primary dealers. Secondary dealers are smaller, regional firms that generally do not hold securities in inventory and must purchase them from primary dealers or other clients.

(2) The amount of trades exceeds the actual amount awarded because three or more competitive bids/offers are sought on each trade.

(3) Dealer Activity summary includes only those trades (purchases and sales) shown to dealers by our Investment Advisor, First Southwest Asset Management, Inc.; it does not include repurchase agreements, money market mutual funds, or local government investment pool activity.

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Money Market Mutual Funds & Pools*	\$ 231,950,770	\$ 47,384,410	\$ 184,566,360
Face Value - Treasuries	50,000,000	174,000,000	(124,000,000)
Face Value - Agencies	1,362,317,000	1,613,317,000	(251,000,000)
Total Face Value	\$ 1,644,267,770	\$ 1,834,701,410	\$ (190,433,640)
Money Market Mutual Funds & Pools	\$ 231,950,770	\$ 47,384,410	\$ 184,566,360
Book Value - Treasuries	50,254,371	174,677,057	(124,422,686)
Book Value - Agencies	1,380,601,188	1,636,883,719	(256,282,532)
Total Book Value	\$ 1,662,806,329	\$ 1,858,945,186	\$ (196,138,857)
Money Market Mutual Funds & Pools	\$ 231,950,770	\$ 47,384,410	\$ 184,566,360
Market Value - Treasuries	50,609,376	175,771,874	(125,162,498)
Market Value - Agencies	1,395,834,091	1,656,533,456	(260,699,365)
Total Market Value	\$ 1,678,394,238	\$ 1,879,689,740	\$ (201,295,502)
Accrued Interest	9,768,872	21,434,401	\$ (11,665,529)
Cash Value (Total Market Value + Accrued Interest)	1,688,163,109	1,901,124,141	\$ (212,961,031)
Unrealized Gain(Loss)	15,587,909	20,744,554	\$ (5,156,645)
Change in Fair Value since 06/30/09 (per GASB 31)	(6,112,547)	4,799,825	\$ (10,912,372)
Weighted Average Days to Maturity	272	321	(49)
Buy Yield	1.93%	2.37%	-0.44%
Portfolio Composition - % of Book Value			
Money Market Mutual Funds and Pools	13.95%	2.85%	11.09%
Treasuries	3.02%	10.50%	-7.49%
Agencies	83.03%	98.44%	-15.41%

**STRATEGY STATEMENT**

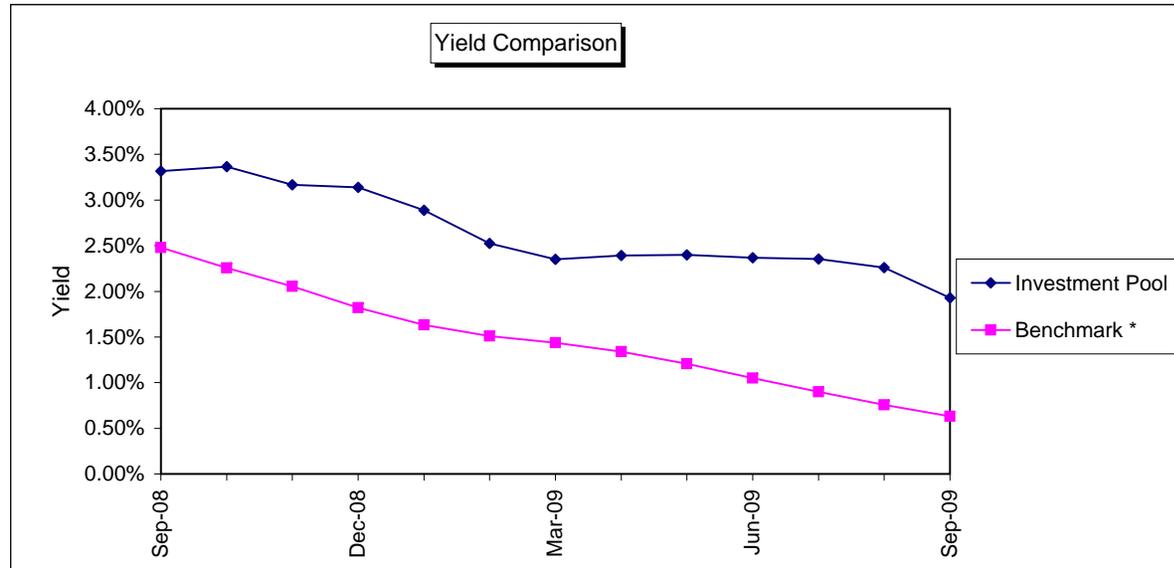
The City's Investment Pool is an aggregation of the majority of City funds that includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City 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 the best feasible yield commensurate with the objectives and restrictions set forth in the Investment Policy by actively 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.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Investment Pool is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.1 of the City's Investment Policy.

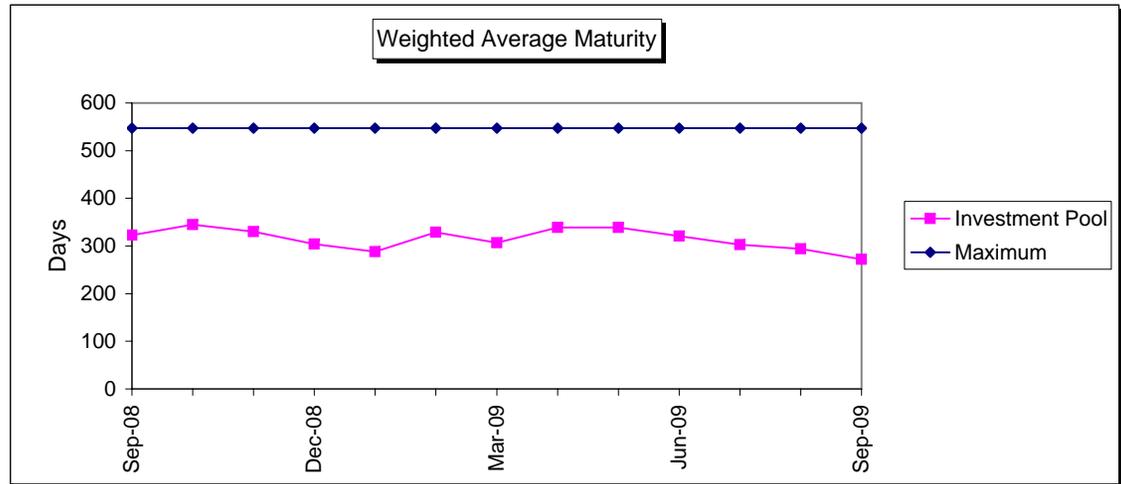
\*See note 1 on page 1.

City of Dallas, Texas  
Yield Comparison - Investment Pool  
For the quarter ending September 30, 2009



\* As per Section 17.1 of the City's Investment Policy, the benchmark for the Investment Pool is the 12-month moving average yield on treasury 1 - year constant maturities as reported by Federal Reserve Statistical Release H.15.

City of Dallas, Texas  
Maturity Analysis - Investment Pool  
For the quarter ending September 30, 2009



Investment Maturity Schedule - % of Total Pool					
Mnths/Yrs to Maturity	Current 9/30/2009	3rd Qtr 6/30/2009	3 Months Net Change	1 Year Ago 9/30/2008	1 Year Net Change
Less than 3 months:	19.4%	23.8%	-4.4%	19.3%	0.1%
3 months to 6 months:	21.5%	4.9%	16.6%	14.1%	7.4%
6 months to 9 months:	6.3%	19.3%	-13.0%	10.0%	-3.7%
9 months to 1 year:	22.3%	5.6%	16.7%	20.5%	1.8%
1 year to 2 years:	29.3%	45.3%	-16.0%	35.2%	-5.9%
2 years to 5 years:	1.2%	1.1%	0.1%	0.9%	0.3%
5 years to 10 years:	0.0%	0.0%	0.0%	0.0%	0.0%
More than 10 years:	0.0%	0.0%	0.0%	0.0%	0.0%
Total:	100.0%	100.0%		100.0%	

City of Dallas, Texas  
Convention Center Reserve  
For the quarter ending September 30, 2009

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value -Treasuries	\$ -	\$ -	\$ -
Face Value - Agencies	18,299,000	18,299,000	-
Total Face Value	\$ 18,299,000	\$ 18,299,000	\$ -
Book Value - Treasuries	\$ -	\$ -	\$ -
Book Value - Agencies	18,442,769	18,496,293	(53,524)
Total Book Value	\$ 18,442,769	\$ 18,496,293	\$ (53,524)
Market Value - Treasuries	\$ -	\$ -	\$ -
Market Value - Agencies	\$ 18,627,808	\$ 18,726,347	(98,539)
Total Market Value	\$ 18,627,808	\$ 18,726,347	\$ (98,539)
Accrued Interest	\$ 150,511	\$ 190,110	\$ (39,599)
Cash Value (Market Value + Accrued Interest)	\$ 18,778,319	\$ 18,916,457	\$ (138,139)
Unrealized Gain(Loss)	\$ 185,039	\$ 230,054	\$ (45,014)
Change in Fair Value since 06/30/09 (per GASB 31)	\$ (88,852)	\$ 9,688	\$ (98,540)
Weighted Average Days to Maturity	218	310	(92)
Buy Yield	1.83%	1.83%	0.00%
Portfolio Composition - % of Book Value			
Treasuries	0.00%	0.00%	0.00%
Agencies	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

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 principal and/or interest if required to prevent a default. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy and the bond ordinance by actively managing the portfolio to meet or exceed the bond yield.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Convention Center Reserve portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.3 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

City of Dallas, Texas  
Water Reserve  
For the quarter ending September 30, 2009

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value -Treasuries	\$ -	\$ -	\$ -
Face Value - Agencies	49,552,000	59,447,000	(9,895,000)
Total Face Value	\$ 49,552,000	\$ 59,447,000	\$ (9,895,000)
Book Value - Treasuries	\$ -	\$ -	\$ -
Book Value - Agencies	50,293,811	59,433,625	(9,139,814)
Total Book Value	\$ 50,293,811	\$ 59,433,625	\$ (9,139,814)
Market Value - Treasuries	\$ -	\$ -	\$ -
Market Value - Agencies	51,035,043	60,568,366	(9,533,324)
Total Market Value	\$ 51,035,043	\$ 60,568,366	\$ (9,533,324)
Accrued Interest	\$ 359,471	\$ 509,961	\$ (150,490)
Cash Value (Market Value + Accrued Interest)	\$ 51,394,514	\$ 61,078,327	\$ (9,683,813)
Unrealized Gain(Loss)	\$ 741,232	\$ 1,134,741	\$ (393,509)
Change in Fair Value since 06/30/09 (per GASB 31)	\$ 340,456	\$ 591,140	\$ (250,684)
Weighted Average Days to Maturity	433	364	69
Buy Yield	2.38%	2.86%	-0.48%
Portfolio Composition - % of Book Value			
Treasuries	0.00%	0.00%	0.00%
Agencies	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

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 principal and/or interest if required to prevent a default. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy and the bond ordinance by actively managing the portfolio to meet or exceed the bond yield.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Water Reserve portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.3 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value - Treasuries	\$ -	\$ -	\$ -
Face Value - Agencies	2,500,000	2,500,000	-
Total Face Value	\$ 2,500,000	\$ 2,500,000	\$ -
Book Value - Treasuries	\$ -	\$ -	\$ -
Book Value - Agencies	2,545,410	2,563,745	(18,335)
Total Book Value	\$ 2,545,410	\$ 2,563,745	\$ (18,335)
Market Value - Treasuries	\$ -	\$ -	\$ -
Market Value - Agencies	2,558,594	2,578,906	(20,312.25)
Total Market Value	2,558,594	2,578,906	\$ (20,312)
Accrued Interest	\$ 38,958	\$ 13,177	\$ 25,781
Cash Value (Market Value + Accrued Interest)	\$ 2,597,552	\$ 2,592,083	\$ 5,469
Unrealized Gain(Loss)	\$ 13,184	\$ 15,161	\$ (1,977)
Change in Fair Value since 06/30/09 (per GASB 31)	\$ (48,525)	\$ (28,212)	\$ (20,313)
Weighted Average Days to Maturity	227	319	(92.00)
Buy Yield	1.19%	1.19%	0.00%
Portfolio Composition - % of Book Value			
Treasuries	0.00%	0.00%	0.00%
Agencies	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

The Art Endowment Fund was created from a repayment to the General Fund from the Convention Center pursuant to Resolution No. 84-311. 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 invested as separate non-pooled portfolios in order to maximize return. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Art Endowment portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.4 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value -Treasuries	\$ -	\$ -	\$ -
Face Value - Agencies	1,000,000	1,000,000	-
Total Face Value	1,000,000	1,000,000	\$ -
Book Value - Treasuries	\$ -	\$ -	\$ -
Book Value - Agencies	999,872	999,838	34
Total Book Value	\$ 999,872	\$ 999,838	\$ 34
Market Value - Treasuries	\$ -	\$ -	\$ -
Market Value - Agencies	1,009,063	1,010,000	(938)
Total Market Value	\$ 1,009,063	\$ 1,010,000	\$ (938)
Accrued Interest	\$ 625	\$ 4,375	\$ (3,750)
Cash Value (Market Value + Accrued Interest)	\$ 1,009,688	\$ 1,014,375	\$ (4,689)
Unrealized Gain(Loss)	\$ 9,190	\$ 10,162	\$ (973)
Change in Fair Value since 06/30/09 (per GASB 31)	\$ 4,888	\$ 5,825	\$ (938)
Weighted Average Days to Maturity	351	443	(92)
Buy Yield	1.51%	1.51%	0.00%
Portfolio Composition - % of Book Value			
Treasuries	0.00%	0.00%	0.00%
Agencies	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

The Ida M. Green Endowment Fund was created with the proceeds from the sale of stock from the estate of Ms. Green pursuant to Resolution No. 87-0836. Its purpose is to provide funds for the operating and capital expenses of the library's Texas Center for the Book and Children's Center. 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 invested as separate non-pooled portfolios in order to maximize return. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Ida Green Library Fund portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.4 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value - Money Market Mutual Funds	\$ 7,103,398	\$ 7,101,145	\$ 2,253
Book Value - Money Market Mutual Funds	\$ 7,103,398	\$ 7,101,145	\$ 2,253
Market Value - Money Market Mutual Funds	\$ 7,103,398	\$ 7,101,145	\$ 2,253
Accrued Interest	\$ 1,227	\$ 2,921	\$ (1,694)
Cash Value (Market Value + Accrued Interest)	\$ 7,104,625	\$ 7,104,066	\$ 559
Unrealized Gain(Loss)	\$ -	\$ -	\$ -
Change in Fair Value since 06/30/09 (per GASB 31)	\$ -	\$ -	\$ -
Weighted Average Days to Maturity	1	1	0
Buy Yield	0.21%	0.50%	-0.29%
Portfolio Composition - % of Book Value			
Money Market Mutual Funds	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

Water Utilities 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 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy and governing bond ordinances.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Water Commercial Paper Program Portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.7 of the City's Investment Policy.

City of Dallas, Texas  
 Sports Arena Reserve  
 For the quarter ending September 30, 2009

**SUMMARY STATEMENT**

	Sports Arena Reserve 1998A			Sports Arena Reserve 1998B - Taxable		
	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value -Treasuries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Face Value - Agencies	-	2,790,000	(2,790,000)	2,739,000	2,739,000	-
Total Face Value	\$ -	\$ 2,790,000	\$ (2,790,000)	\$ 2,739,000	\$ 2,739,000	\$ -
Book Value - Treasuries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Book Value - Agencies	-	2,893,057	(2,893,057)	2,757,318	2,762,651	(5,333)
Total Book Value	\$ -	\$ 2,893,057	\$ (2,893,057)	\$ 2,757,318	\$ 2,762,651	\$ (5,333)
Market Value - Treasuries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market Value - Agencies	-	2,910,319	(2,910,319)	2,846,848	2,872,526	(25,678)
Total Market Value	\$ -	\$ 2,910,319	\$ (2,910,319)	\$ 2,846,848	\$ 2,872,526	\$ (25,678)
Accrued Interest	\$ -	\$ 55,730	\$ (55,729)	\$ 16,738	\$ 50,976	\$ (34,238)
Cash Value (Market Value + Accrued Interest)	\$ -	\$ 2,966,049	\$ (2,966,049)	\$ 2,863,586	\$ 2,923,502	\$ (59,916)
Unrealized Gain(Loss)	\$ -	\$ 17,262	\$ (17,263)	\$ 89,530	\$ 109,875	\$ (20,345)
Change in Fair Value since 06/30/09 (per GASB 31	\$ (22,290)	\$ (9,135)	\$ (13,155)	\$ 24,822	\$ 50,500	\$ (25,678)
Weighted Average Days to Maturity	0	393	-393	320	412	-92
Buy Yield	0.00%	1.25%	-1.25%	4.19%	4.19%	0.00%
Portfolio Composition - % of Book Value						
Treasuries	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Agencies	0.00%	100.00%	-100.00%	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

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 principal and/or interest if required to prevent a default. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy and the bond ordinance by actively managing the portfolio to meet or exceed the bond yield.

For the quarter ending September 30, 2009 the Sports Arena Reserve portfolios are in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.3 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value - Money Market Mutual Funds	\$ 4,127,159	\$ 4,705,597	\$ (578,438)
Book Value - Money Market Mutual Funds	\$ 4,127,159	\$ 4,705,597	\$ (578,438)
Market Value - Money Market Mutual Funds	\$ 4,127,159	\$ 4,705,597	\$ (578,438)
Accrued Interest	\$ -	\$ -	\$ -
Cash Value (Market Value + Accrued Interest)	\$ 4,127,159	\$ 4,705,597	\$ (578,438)
Unrealized Gain(Loss)	\$ -	\$ -	\$ -
Change in Fair Value since 06/30/09 (per GASB 31)	\$ -	\$ -	\$ -
Weighted Average Days to Maturity	1	1	0
Buy Yield	0.10%	0.10%	0.00%
Portfolio Composition - % of Book Value			
Money Market Mutual Funds	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

The Trinity Parkway Escrow portfolio was created with the deposit of \$5,000,000 on November 16, 1999 in an escrow account in accordance with an Agreement dated as of January 1, 1999 between the City and 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 account are defined in the Escrow Agreement as those that are consistent with the Public Funds Investment Act. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and restrictions set forth in the Agreement.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Trinity Parkway Escrow portfolio is in compliance with the provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.8 of the City's Investment Policy.

City of Dallas, Texas  
Cityplace TIF Reserve  
For the quarter ending September 30, 2009

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value -Treasuries	\$ -	\$ -	\$ -
Face Value - Agencies	2,185,000	2,185,000	-
Total Face Value	\$ 2,185,000	\$ 2,185,000	\$ -
Book Value - Treasuries	-	-	\$ -
Book Value - Agencies	2,246,925	2,265,710	(18,785)
Total Book Value	\$ 2,246,925	\$ 2,265,710	\$ (18,785)
Market Value - Treasuries	-	-	\$ -
Market Value - Agencies	2,258,744	2,279,228	(20,484)
Total Market Value	\$ 2,258,744	\$ 2,279,228	\$ (20,484)
Accrued Interest	\$ 17,972	\$ 43,645	\$ (25,673)
Cash Value (Market Value + Accrued Interest)	\$ 2,276,715	\$ 2,322,873	\$ (46,158)
Unrealized Gain(Loss)	\$ 11,819	\$ 13,518	\$ (1,698)
Change in Fair Value since 06/30/09 (per GASB 31)	\$ (37,489)	\$ (17,004)	\$ (20,485)
Weighted Average Days to Maturity	301	393	-92
Buy Yield	1.25%	1.25%	0.00%
Portfolio Composition - % of Book Value			
Treasuries	0.00%	0.00%	0.00%
Agencies	100.00%	100.00%	0.00%

**STRATEGY STATEMENT**

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 principal and/or interest if required to prevent a default. 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) manage market and credit risk through diversification; and d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in the Investment Policy and the bond ordinance by actively managing the portfolio to meet or exceed the bond yield.

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Cityplace TIF Reserve portfolio is in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.3 of the City's Investment Policy.

NOTE: This report summarizes direct investments only; a fund's accounting balance also includes its equity in the Investment Pool.

City of Dallas, Texas  
 Oncor Electric Escrow  
 For the quarter ending September 30, 2009

**SUMMARY STATEMENT**

	Current 9/30/2009	Prior Qtr 6/30/2009	Period Net Change
Face Value - Money Market Mutual Funds	\$ 4,550,366	\$ 4,550,366	\$ 0
Book Value - Money Market Mutual Funds	\$ 4,550,366	\$ 4,550,366	\$ 0
Market Value - Money Market Mutual Funds	\$ 4,550,366	\$ 4,550,366	\$ 0
Accrued Interest	\$ -	\$ -	\$ -
Cash Value (Market Value + Accrued Interest)	\$ 4,550,366	\$ 4,550,366	\$ 0
Unrealized Gain(Loss)	\$ -	\$ -	\$ -
Change in Fair Value since 06/30/09 (per GASB 31)	\$ -	\$ -	\$ -
Weighted Average Days to Maturity	1	1	0
Buy Yield	0.10%	0.10%	0.00%
Portfolio Composition - % of Book Value			
Money Market Mutual Funds	100.00%	100.00%	0.00%

**STRATEGY COMPLIANCE STATEMENT**

For the quarter ending September 30, 2009 the Oncor Electric Escrow portfolio is in compliance with the provisions of the Public Funds Investment Act and the investment strategy adopted in Sec. 17.8 of the City's Investment Policy.

# Memorandum



CITY OF DALLAS

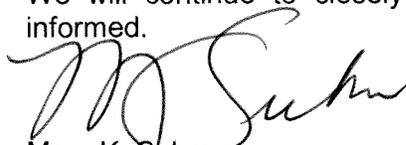
DATE October 9, 2009  
TO The Honorable Mayor and Members of the City Council  
SUBJECT Financial Forecast Report

For your information, attached is the financial forecast for FY2008-09, based on information through August. Mid-year appropriation adjustments approved on August 12, 2009 are included in this report. General Fund revenues are projected \$50,699,000 below budget and expenditures are projected \$50,856,000 below budget.

Sales Tax revenues are projected \$28,576,000 below budget. Other major revenue sources projected to be below budget are Ad Valorem Tax revenues, interest earnings, Municipal Court fines, Red Light Camera fines, Private Disposal fees, revenue from the re-sale of recyclable paper and cardboard, and sale of surplus property, offset by partial repayment of subsidies from the General Fund to the Convention Center in FY2006-07 and FY2007-08.

The General Fund revenue shortfall is primarily offset by lower expenditures attributed to fuel and electricity savings, along with savings from the continued selective hiring freeze, implementation of two civilian furlough days, and CIS and worker's compensation rebates.

We will continue to closely monitor revenues and expenditures and will keep you informed.



Mary K. Suhm  
City Manager

## Attachment

c: Ryan S. Evans, First Assistant City Manager  
A.C. Gonzales, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest Turner, Assistant City Manager  
David Cook, Chief Financial Officer  
Jeanne Chipperfield, Director – Office of Financial Services

**GENERAL FUND  
COMPARISON OF 2008-09 REVENUES AND EXPENDITURES  
AS OF August 31, 2009  
(000s)**

<u>ITEM</u>	<u>BUDGET</u>	<u>YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
Revenues	\$1,080,994	\$898,695	\$1,030,295	(\$50,699)
Expenditures	\$1,094,516	\$955,183	\$1,043,660	(\$50,856)
Sub Total	(\$13,522)	(\$56,488)	(\$13,365)	\$157
Use of one time resources	\$13,522		\$13,522	
Net Excess/(Deficiency) of Revenues Over Expenditures and Transfers to Reserves	<u>\$0</u>		<u>\$157</u>	

**FINANCIAL FORECAST REPORT  
FY 2008-09  
AS OF AUGUST 31, 2009**

**GENERAL FUND**

**Revenues**

- Total General Fund revenues are estimated to be \$50,699,000 below budget.
  - Sales Tax revenues are projected to be \$28,576,000 below budget due to the weak economy.
  - Atmos Energy Franchise Fees are projected to be \$1,625,000 below budget due to a warmer than average winter, which decreased gas usage.
  - Other Franchise Fees are projected to be \$1,568,000 above budget primarily due to increases in actual collections from AT&T Video as they continue to expand their systems and reach more customers.
  - Interest Earned revenue is projected to be \$2,064,000 below budget primarily due to lower than budgeted interest rates.
  - Municipal Court Fines revenue are projected to be \$3,563,000 below budget due to a decrease in the number of citations issued and increases in partial payments of fines and work-release in lieu of fines.
  - Vehicle Towing and Storage revenue is projected to be \$958,000 above budget primarily due to towing of vehicles lacking proof of auto insurance.
  - Parking Fine revenues are projected to be \$464,000 above budget due to the increase in meter rates and parking fines authorized by Council on May 27, 2009.
  - Red Light Camera Fines are projected to be \$4,241,000 below budget primarily due to decreased citations and delays in getting TXDOT approval to install new cameras.
  - Public Library Fines revenue is projected to be \$70,000 above budget primarily due to an increase in collections.
  - Park and Recreation revenues are projected to be \$968,000 above budget primarily due to a one-time payment from the Live Nation audit.
  - Private Disposal Fees are projected to be \$6,773,000 below budget primarily due to the effects of the economy and reduced waste streams from two major customers.
  - Emergency Ambulance Response revenue is projected to be \$1,950,000 above budget primarily due to improved data collection methods and billing efforts through the electronic patient care reporting system and the corresponding yield from the fee increase.
  - Miscellaneous Revenues are projected to be \$3,666,000 below budget primarily due to a drop in the re-sale value of recyclable paper and cardboard.

**Expenditures**

- Total General Fund expenditures are estimated to be \$50,856,000 below budget.
  - Business Development and Procurement Services is projected to be \$156,000 below budget primarily due to delays in hiring.
  - Court and Detention Services is projected to be \$1,337,000 below budget primarily due to delays in hiring and the worker's compensation rebate.
  - Development Services is projected to be \$240,000 below budget primarily due to delays in hiring.

**FINANCIAL FORECAST REPORT**  
**FY 2008-09**  
**AS OF AUGUST 31, 2009**

- Elections is projected to be \$381,000 below budget primarily due to lower than anticipated costs for the May 2009 general election.
- Housing is projected to be \$70,000 below budget primarily due to a delay in the relocation of People Helping People to its new Bexar Street location.
- Human Resources is projected to be \$557,000 below budget primarily due to the elimination of tuition reimbursement for employees who have not previously been approved and the CIS rebate.
- Library is projected to be \$2,444,000 below budget primarily due to a reduction in materials purchased, delays in hiring, and electricity savings.
- Office of Cultural Affairs is projected to be \$845,000 below budget primarily due to electricity savings.
- Office of Emergency Management is projected to be \$409,000 below budget primarily due to receipt of the Emergency Management Performance Grant and the CIS rebate.
- Office of Environmental Quality is projected to be \$140,000 below budget primarily due to delays in hiring.
- Public Works and Transportation is projected to be \$4,216,000 below budget primarily due to a reduced payment to the State for Red Light Camera fines, delays in hiring, and fuel and electricity savings.
- Sanitation Services is projected to be \$10,811,000 below budget primarily due to lower than anticipated costs for storm clean-up, fuel savings, worker's compensation rebate, delay of equipment rebuilds at the landfill, city facility garbage collection costs, and recycling education initiatives.
- Street Lighting is projected to be \$2,013,000 below budget due to electricity savings.
- Street Services is projected to be \$6,721,000 below budget primarily due to elimination of the micro and slurry sealant preventative maintenance contracts, delays in hiring, fuel savings, and the worker's compensation rebate.

**ENTERPRISE FUNDS**

- Convention and Event Services expenses are projected to be \$11,293,000 below budget primarily due to debt service savings realized as a result of the February 2009 restructuring of the Convention Center's outstanding debt, which are partially offset by partial repayment of General Fund loans made in FY 07 and FY 08. Revenues are projected to be \$11,458,000 below budget primarily due to lower than budgeted Hotel Occupancy Tax revenue and a reduced transfer from the General Fund.
- The \$4,203,000 reduction in Development Services' expenses is primarily the result of holding vacancies, anticipated attrition through the end of the year and the sub-contracting of services to Code Compliance. Also contributing to the reductions are savings in materials, supplies, fuel, travel and training. Revenues are projected to be \$6,888,000 below budget due to a reduction in construction activity, creating a shortfall in revenue. This is reflective of the national economy and trends in the construction industry.
- WRR expenses are projected to be \$507,000 below budget primarily due to delays in hiring. Revenues are projected to be \$783,000 below budget due to a decrease in local and national advertising sales.
- Water Utilities revenues are projected to be \$33,724,000 below budget due to lower than budgeted water pumpage. Expenses are projected to be \$33,724,000 below budget due to vacancies, lower than budgeted contract rates for power, lower fuel costs, savings in worker's compensation, and a reduced cash transfer to capital construction.

**FINANCIAL FORECAST REPORT  
FY 2008-09  
AS OF AUGUST 31, 2009**

**INTERNAL SERVICES**

- Communication and Information Services revenues are projected to be \$3,952,000 below budget due to a one time rebate to user departments and expenses are projected to be \$3,100,000 below budget primarily due to delays in hiring.
- Equipment Services revenues are projected to be \$11,942,000 below budget and expenses are projected to be \$11,049,000 below budget primarily due to lower than budgeted fuel prices.
- Office Services expenses are projected to be \$371,000 below budget primarily due to a decrease in the cost of goods sold and revenues are projected to be \$538,000 below budget primarily due a decrease in the number of vehicles auctioned due to abandonment at the auto pound as a result of transferring accident response on some highways to the Dallas County Sheriff's Office.

**OTHER FUNDS**

- 9-1-1 System Operations expenses are projected to be \$949,000 below budget primarily due to lower than budgeted expenditures for telephone service and transfers.
- Storm Water Drainage expenses are projected to be \$1,810,000 below budget due to lower than budgeted expenditures eligible for reimbursement.

**DEBT SERVICE FUND**

- Debt Service revenues are \$34,175,000 above budget primarily due to an unbudgeted reimbursement from the proceeds of the Convention Hotel Bonds. The proceeds will be used to call the portion of the certificates of obligation (CO's) issued to acquire land for the hotel site. The CO's were called on October 5th.

**GENERAL FUND  
FORECAST OF FY 2008-09 REVENUES  
AS OF AUGUST 31, 2009  
(000s)**

	<u>BUDGET</u>	<u>REVENUES YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
<b>TAXES</b>				
Ad Valorem Tax	\$467,275	\$457,308	\$460,029	(\$7,246)
Sales Tax	236,135	138,246	207,559	(28,576)
<b>FRANCHISE REVENUES</b>				
Oncor Electric	48,186	49,437	49,437	1,251
AT&T	22,500	16,051	21,625	(875)
Atmos Energy	14,000	9,619	12,375	(1,625)
Time Warner Cable	6,000	4,646	6,162	162
Other	12,844	9,642	14,412	1,568
<b>TOTAL TAXES &amp; FRANCHISE REVENUES</b>	<b>806,940</b>	<b>684,949</b>	<b>771,600</b>	<b>(35,340)</b>
<b>LICENSES AND PERMITS</b>	<b>8,378</b>	<b>7,712</b>	<b>8,780</b>	<b>402</b>
<b>INTEREST EARNED</b>	<b>5,872</b>	<b>3,275</b>	<b>3,808</b>	<b>(2,064)</b>
<b>INTERGOVERNMENTAL</b>	<b>5,975</b>	<b>5,658</b>	<b>6,148</b>	<b>173</b>
<b>FINES AND FORFEITURES</b>				
Municipal Court	19,153	14,592	15,590	(3,563)
Vehicle Towing & Storage	6,555	6,957	7,512	958
Parking Fines	5,770	3,914	6,234	464
Red Light Camera Fines	11,369	0	7,128	(4,241)
Public Library	650	662	720	70
<b>TOTAL FINES</b>	<b>43,497</b>	<b>26,124</b>	<b>37,185</b>	<b>(6,313)</b>
<b>CHARGES FOR SERVICE</b>				
Sanitation Service	61,667	58,842	63,564	1,897
Parks	9,279	10,727	10,246	968
Private Disposal Fees	28,667	18,438	21,894	(6,773)
Emergency Ambulance	16,650	17,176	18,600	1,950
Security Alarm	4,650	3,944	4,500	(150)
Street Lighting	1,392	1,067	1,392	0
Vital Statistics	2,400	1,985	2,389	(11)
Other	13,117	10,846	13,165	48
<b>TOTAL CHARGES</b>	<b>137,821</b>	<b>123,025</b>	<b>135,751</b>	<b>(2,070)</b>
<b>INTERFUND REVENUE</b>	<b>57,947</b>	<b>39,436</b>	<b>56,126</b>	<b>(1,821)</b>
<b>MISCELLANEOUS</b>	<b>14,563</b>	<b>8,515</b>	<b>10,897</b>	<b>(3,666)</b>
<b>TOTAL REVENUE</b>	<b>1,080,994</b>	<b>898,695</b>	<b>1,030,295</b>	<b>(50,700)</b>
<b>USE OF ONE-TIME RESOURCES</b>	<b>13,522</b>	<b>0</b>	<b>13,522</b>	<b>0</b>
<b>TOTAL RESOURCES</b>	<b>\$1,094,516</b>	<b>\$898,695</b>	<b>\$1,043,816</b>	<b>(\$50,700)</b>

**GENERAL FUND  
FORECAST OF 2008-09 EXPENDITURES  
AS OF August 31, 2009  
(000s)**

<b>DEPARTMENT</b>	<b>BUDGET</b>	<b>EXPENDITURES YEAR TO DATE</b>	<b>YEAR-END FORECAST</b>	<b>BUDGET VS FORECAST VARIANCE</b>
Building Services	\$15,422	\$19,252	\$14,902	(\$520)
Business Dev/Procurement Svcs	3,043	2,486	2,887	(156)
City Attorney's Office	13,043	11,760	12,800	(243)
City Auditor's Office	2,801	2,395	2,698	(103)
City Manager's Office	2,610	2,496	2,496	(114)
City Secretary	1,950	1,674	1,884	(66)
Civil Service	2,091	1,782	2,067	(24)
Code Compliance	26,024	21,850	24,969	(1,055)
Court Services	12,206	9,987	10,869	(1,337)
Development Services	1,162	1,532	922	(240)
Elections	1,460	1,226	1,079	(381)
Environmental and Health Services	20,648	18,051	19,912	(736)
Fire	202,748	178,386	199,787	(2,961)
Housing	1,341	1,339	1,271	(70)
Human Resources	6,054	5,336	5,497	(557)
Independent Audit	982	982	982	0
Judiciary	2,884	2,711	2,798	(86)
Library	31,485	25,491	29,041	(2,444)
Mayor and Council	3,932	3,263	3,795	(137)
Non-Departmental	22,024	20,602	21,892	(132)
Office of Cultural Affairs	16,281	13,885	15,436	(845)
Office of Economic Development	3,930	3,271	3,794	(136)
Office of Emergency Management	1,178	861	769	(409)
Office of Environmental Quality	909	872	769	(140)
Office of Financial Services	17,428	19,530	16,841	(587)
Park and Recreation	75,889	70,191	74,059	(1,830)
Police	423,839	365,876	413,864	(9,975)
Public Works and Transportation	27,831	25,115	23,615	(4,216)
Sanitation Services	79,120	61,903	68,309	(10,811)
Street Lighting	18,987	16,962	16,974	(2,013)
Street Services	38,041	33,352	31,320	(6,721)
<b><u>OTHER</u></b>				
Appraisal Districts	3,383	3,383	3,383	0
Jail Contract - Lew Sterrett	6,839	6,839	6,839	0
Dallas County Tax Collection	542	542	542	0
<b><u>RESERVES AND TRANSFERS</u></b>				
Contingency Reserve	3,211	0	2,270	(941)
Liability/Claims Fund	3,199	0	2,328	(871)
<b>EXPENDITURES</b>	<b>\$1,094,516</b>	<b>\$955,183</b>	<b>\$1,043,660</b>	<b>(\$50,856)</b>

**PROPRIETARY FUNDS**  
**FORECAST OF 2008-09 REVENUES AND EXPENDITURES**  
**AS OF August 31, 2009**  
**(000s)**

<u>DEPARTMENT</u>	<u>BUDGET</u>	<u>REVENUES AND EXPENDITURES YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
<b><u>Aviation</u></b>				
Revenues	\$44,150	\$40,082	\$43,248	(\$902)
Expenses	\$42,514	\$30,496	\$41,017	(\$1,497)
Net Excess of Revenues Over Expenses/Transfer	<u>\$1,636</u>	<u>\$9,586</u>	<u>\$2,231</u>	<u>\$595</u>
<b><u>Convention Center</u></b>				
Revenues	\$67,330	\$46,636	\$55,872	(\$11,458)
Expenses	\$67,165	\$46,285	\$55,872	(\$11,293)
Net Excess of Revenues Over Expenses/Transfer	<u>\$165</u>	<u>\$351</u>	<u>\$0</u>	<u>(\$165)</u>
<b><u>Development Services</u></b>				
Revenues	\$22,271	\$14,353	\$15,383	(\$6,888)
Expenses	\$26,765	\$19,504	\$22,562	(\$4,203)
Net Excess of Revenues Over Expenses/Transfer	<u>(\$4,494)</u>	<u>(\$5,151)</u>	<u>(\$7,179)</u>	<u>(\$2,685)</u>
<b><u>Municipal Radio Fund</u></b>				
Revenues	\$3,623	\$2,759	\$2,840	(\$783)
Expenses	\$3,459	\$2,634	\$2,952	(\$507)
Net Excess of Revenues Over Expenses/Transfer	<u>\$164</u>	<u>\$125</u>	<u>(\$112)</u>	<u>(\$276)</u>
<b><u>Water Utilities</u></b>				
Revenues	\$511,159	\$434,514	\$477,435	(\$33,724)
Expenses	\$511,159	\$401,799	\$477,435	(\$33,724)
Net Excess of Revenues Over Expenses/Transfer	<u>\$0</u>	<u>\$32,715</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Communication &amp; Information Svcs.</u></b>				
Revenues	\$46,472	\$37,128	\$42,520	(\$3,952)
Expenses	\$49,555	\$44,117	\$46,455	(\$3,100)
Net Excess of Revenues Over Expenses/Transfer	<u>(\$3,083)</u>	<u>(\$6,989)</u>	<u>(\$3,935)</u>	<u>(\$852)</u>

**PROPRIETARY FUNDS  
FORECAST OF 2008-09 REVENUES AND EXPENDITURES  
AS OF August 31, 2009  
(000s)**

<u>DEPARTMENT</u>	<u>BUDGET</u>	<u>REVENUES AND EXPENDITURES YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
<b><u>Equipment Services</u></b>				
Revenues	\$56,835	\$36,251	\$44,893	(\$11,942)
Expenses	<u>\$56,319</u>	<u>\$43,221</u>	<u>\$45,270</u>	<u>(\$11,049)</u>
Net Excess of Revenues Over Expenses/Transfer	<u>\$516</u>	<u>(\$6,970)</u>	<u>(\$377)</u>	<u>(\$893)</u>
<b><u>Office Services</u></b>				
Revenues	\$4,657	\$3,722	\$4,119	(\$538)
Expenses	<u>\$4,681</u>	<u>\$3,871</u>	<u>\$4,310</u>	<u>(\$371)</u>
Net Excess of Revenues Over Expenses/Transfer	<u>(\$24)</u>	<u>(\$149)</u>	<u>(\$191)</u>	<u>(\$167)</u>

**OTHER FUNDS**  
**FORECAST OF 2008-09 REVENUES AND EXPENDITURES**  
**AS OF August 31, 2009**  
**(000s)**

<u>DEPARTMENT</u>	<u>BUDGET</u>	<u>REVENUES AND EXPENDITURES YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
<b><u>Employee Benefits</u></b>	\$857	\$580	\$838	(\$19)
<b><u>Risk Management</u></b>	\$2,784	\$2,306	\$2,784	\$0
<b><u>9-1-1 System Operations</u></b>				
Revenues	\$13,391	\$12,542	\$13,908	\$517
Expenses	\$16,061	\$10,744	\$15,112	(\$949)
Net Excess of Revenues Over Expenses/Transfer	<u>(\$2,670)</u>	<u>\$1,798</u>	<u>(\$1,204)</u>	<u>\$1,466</u>
<b><u>Storm Water Drainage</u></b>				
Revenues	\$35,110	\$32,807	\$35,507	\$397
Expenses	\$36,181	\$16,675	\$34,371	(\$1,810)
Net Excess of Revenues Over Expenses/Transfer	<u>(\$1,071)</u>	<u>\$16,132</u>	<u>\$1,136</u>	<u>\$2,207</u>

**DEBT SERVICE FUND  
FORECAST OF 2008-09 REVENUES AND EXPENDITURES  
AS OF August 31, 2009  
(000s)**

<u>DEBT SERVICE</u>	<u>BUDGET</u>	<u>EXPENDITURES AND REVENUES YEAR TO DATE</u>	<u>YEAR-END FORECAST</u>	<u>BUDGET VS FORECAST VARIANCE</u>
Beginning Balance	\$6,385	\$0	\$3,657	(\$2,728)
Revenues	\$242,349	\$225,310	\$276,524	\$34,175
Expenses	\$250,279	\$182,119	\$250,053	(\$226)
Ending Balance	<u>(\$1,544)</u>	<u>\$43,191</u>	<u>\$30,128</u>	<u>\$31,673</u>

## CONTINGENCY RESERVE STATUS

<b>Beginning Balance October 1, 2008</b>	<b>\$5,469,847</b>
Equipment and Building Services - Security enhancements at City Hall (November 10,2008, CR # 08-3051)	(\$31,168)
Environmental and Health Services - Implementation of the expanded anti- smoking ordinance (January 28, 2009, CR # 09-0288)	(\$165,674)
Elections - Run-off election held on June 13, 2009 (May 20, 2009, CR # 09- 1289)	(\$350,000)
<b>Balance as of August 31, 2009</b>	<b><u>\$4,923,005</u></b>

**LIABILITY/CLAIMS FUND**

<b>Beginning Balance October 1, 2008</b>	<b>\$9,943,256</b>
Paid October 2008	(\$298,154)
Paid November 2008	(\$101,787)
Paid December 2008	(\$2,951,124)
Paid January 2009	(\$409,077)
Paid February 2009	(\$370,882)
Paid March 2009	(\$393,309)
Paid April 2009	(\$270,864)
Paid May 2009	(\$478,161)
Paid June 2009	(\$287,120)
Paid July 2009	(\$312,796)
Paid August 2009	(\$925,153)
<b>Balance as of August 31, 2009</b>	<b><u>\$3,144,829</u></b>