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# CITY OF ARLINGTON, TEXAS

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## Investment Policy

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December 15, 2015

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**CITY OF ARLINGTON, TEXAS**  
**INVESTMENT POLICY**  
**Latest Revision (December 15, 2015)**

I. GOVERNING AUTHORITY

The governing authority for the City of Arlington's Investment Policy (the "Policy") shall be Chapter 2256 of the Texas Government Code, cited as the Public Funds Investment Act (the "Act"). All investment activity will be done in accordance with the provisions of the Act. The Mayor and City Council on an annual basis shall consider a resolution stating they reviewed the Policy and investment strategies and the City's resolution shall record any changes made to either the Policy or strategies.

II. PURPOSE AND SCOPE

The Policy applies to the investment activities of the City of Arlington. The term "City" herein shall refer to the City of Arlington. All financial assets of the City, including the following fund types: General Fund, Capital Project, Working Capital Reserve, Cowboys Stadium Complex Debt Service Reserve, Debt Service, Self-Insurance, Landfill Trust, Water and Sewer, and other funds that may be created from time to time, shall be administered in accordance with the provisions of the Policy. With respect to non-profit corporations or trusts established by City resolution and acting as instrumentalities of the City, the Policy shall prevail in the absence of their specific investment policy. In addition to the Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) shall be governed and controlled by their governing ordinance and by all regulations and rulings applicable to the issuance of such obligations. The Policy does not apply to the following funds that are separately administered: Arlington Tomorrow Foundation, Part-time Deferred Income Trust Fund; Thrift Savings Plan Fund; Disability Income Plan Fund; and the Deferred Compensation Fund.

III. OBJECTIVES

A. The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

1. The City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by maintaining cash equivalent investment balances, matching investment

maturities with estimated cash flow requirements and by investing in securities with active secondary markets.

2. The City's pooled operating portfolio shall be designed with the objective of achieving an appropriate market rate of return to meet or exceed a rolling one-year Treasury Bill index, annualized return for comparable time period. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment principles.
3. Funds held for future capital projects shall be invested in anticipation of projected cash flow requirements, and if compatible, in a manner that reasonably can be expected to produce enough income to offset inflationary construction cost increases.
4. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The City Council recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

#### IV. INVESTMENT COMMITTEE

- A. The Investment Committee, consisting of a Deputy City Manager the Director of Finance, the Assistant Director, Financial Operations , the Assistant Director, Fiscal Policy, an Assistant Director of Utilities, and two City staff members designated by the City Manager shall meet at least quarterly to determine general strategies and to monitor results. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized broker/dealers, approved sources of investment training, and the target rate of return on the investment portfolio. The investment committee shall provide minutes of its meetings. Any two members of the committee may request a special meeting, and three members shall constitute a quorum. The committee shall establish its own rules and procedures.

#### V. RESPONSIBILITY AND CONTROL

- A. The Investment Committee shall designate Investment Officers who are hereby delegated the management responsibility for the investment program. The Director of Finance has the authority to temporarily designate Investment

Officers between Investment Committee meetings, at which point the Investment Committee will determine the status of the temporary Officers. No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of other designated Investment Officers. In conjunction with the annual financial audit, an annual compliance audit of management controls on investments and adherence to the City's approved Investment Policy will be undertaken.

The City shall require and provide investment training for all designated Investment Officers in order to insure the quality and capability of investment management. Training will be provided through courses and seminars offered by independent professional organizations and associations, including the Government Treasurers Organization of Texas (GTOT), the Association of Financial Professionals (AFP) and its local chapters, the Association of Public Treasurers, the University of North Texas Center for Public Management and others as approved by the Investment Committee. Training shall consist of 10 hours within 12 months of assuming office and 8 hours not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date thereafter as required by the Act.

The City maintains the right to hire Investment Advisers to assist City staff in the investment of funds. Investment Advisers shall adhere to the spirit, philosophy and specific terms of this Policy and shall invest within the same objectives. The Director of Finance shall establish criteria to evaluate Investment Advisers, including:

1. Adherence to the City's policies and strategies;
2. Investment strategy recommendations within accepted risk constraints;
3. Responsiveness to the City's request for services and information;
4. Understanding of the inherent fiduciary responsibility of investing public funds and;
5. Similarity in philosophy and strategy with the City's objectives.

Selected Investment Advisers must be registered under the Investment Advisers Act of 1940 or with the State Securities Board. A contract with an Investment Adviser may not be for a term longer than two years and any contract renewal, or extension must be approved by the City Council.

- B. The Director of Finance shall submit a quarterly investment report that contains a summary statement of each pooled fund group stating the beginning market value, ending market value, and fully accrued interest

income for the quarter, and other items as may be required by the Act. The report shall also state the book value, market value, and maturity date of each separately invested asset. The report shall state the compliance of the City with the Act and the Policy. The report shall be jointly prepared and signed by all Investment Officers and submitted to the Mayor and City Council, City Manager, and Investment Committee. The quarterly investment reports shall be formally reviewed by an independent auditor as part of the annual audit and reported by that auditor to the Mayor and City Council. Weighted average yield to maturity shall be the portfolio performance standard reported by the City.

- C. Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal, liquidity, public trust and yield.
- D. An Investment Officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with The Texas Ethics Commission and the Mayor and City Council. For purposes of this subsection, an Investment Officer has a personal business relationship with a business organization if:
  - 1. The Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
  - 2. Funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer's gross income for the previous year; or
  - 3. The Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

## VI. INVESTMENTS

- A. Funds of the City of Arlington may be invested in the instruments described below, all of which are authorized by the Act. Maximum limits are established for the total portfolio at the time of purchase and where limits of investment quality by a nationally recognized investment rating firm are expressed, a lower rating prevails when in combination, except in cases where the higher rating was obtained by insurance:
1. United States Treasuries,  
100% of portfolio;  
100% per issuer
  2. United States agencies and instrumentalities,  
100% of portfolio  
35% per issuer;
  3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.  
100% of portfolio;  
10% per issuer;
  4. Obligations of Texas, its agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent  
10% of portfolio  
2% of City's portfolio per issuer
  5. Obligations of other states, its agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent  
10% of portfolio  
2% of City's portfolio per issuer
  6. Certificates and other forms of deposit issued by a depository institution that has its main office or a branch office in Texas. The deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or secured by obligations in a manner and amount as provided by this Policy for bank

deposits. In addition, deposits obtained through a broker or depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act are authorized investments;

50% of portfolio

20% per issue

6. Fully collateralized direct security repurchase agreements and reverse security repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. A repurchase agreement shall have a defined termination date and be secured by a combination of cash and obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A Repurchase Agreement must be signed by the financial institution/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery versus payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102% at the time funds are disbursed and throughout the term of the repurchase agreement.

40% of portfolio (excluding flexible repos for bond proceeds)

15% per counterparty (excluding flexible repos for bond proceeds)

7. Commercial paper that has a stated maturity of 270 days or less and is either rated not less than A-I+, P-I or equivalent by at least two nationally recognized credit rating agencies or is rated by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States. The commercial paper issuer must have an underlying long term credit of at least AA or the equivalent.

20% of portfolio

5% per issue

8. Guaranteed investment contracts for **bond proceeds only** in accordance with the conditions prescribed in Section 2256.015 of the Act.

100% of bond proceeds

9. No-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission, have a dollar weighted average stated maturity of 90 days or less, seek to maintain a net asset value of \$1.00 per share, and are rated AAAM or an equivalent rating, by at least one nationally recognized rating service.  
100% of portfolio  
15% per fund
10. Local government investment pools, which meet the requirements of Section 2256.016 of the Act, are rated no lower than AAA, or an equivalent rating, by at least one nationally recognized rating service, and are authorized by resolution or ordinance by the City Council. In addition, a local government investment pool created to function as a money market mutual fund must mark its portfolio to the market daily and, to the extent reasonably possible, stabilize at \$1.00 net asset value  
100% of portfolio  
25% of City's portfolio per pool  
2% of Pool's portfolio

B. The following are prohibited investments and not authorized under this policy:

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

C. The maximum maturity and maximum weighted average maturity for each fund group is set forth in the investment strategies under Section VII. The maximum maturity for all City investments is ten years. The maximum maturity for all operating funds is three years. Debt bond covenants or other legally binding contractual investment agreements, such as flexible repurchase agreements or guaranteed investment contracts, will take

precedence over the weighted average maturity or maximum maturity limitations in the Policy.

- D. It is the policy of the City to create a competitive environment for all investment activities by regularly reviewing available investment options and prevailing market conditions. The Investment Officers shall develop and maintain procedure for ensuring competition in the investments of the City's funds, including, but not limited to: comparing competitive offers or bids for each individual security purchase and sale and representative yields on depository institution deposits, money market mutual funds, "when issued" securities, and local government investment pools.
- E. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk. The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
- Limiting investments to the safest types of investments
  - Pre-qualifying the financial institutions and broker/dealers with which the City will do business
  - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

The City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
  - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.
- F. Security "swaps" may be considered as an investment option for the City. The two types of allowable swaps are "swaps to increase yield" and "swaps to increase portfolio quality." Changes in investment duration are not considered investment swaps. A security swap may be considered only if the overall yield of the fund does not decrease and the maturity of the new security is not more than 180 days longer than the maturity of the old security. Swaps may be initiated by brokers/dealers who are on the City's approved list. Consistent with City policy, proposed swaps will be competitively bid on the open market. The swap will be awarded to the broker/dealer offering the best yield and quality to the City.

- G. When-issued security purchases shall be permitted with the following restrictions:
  - 1. All when-issued purchases will be documented as a future obligation of the City.
  - 2. No when-issued trading will occur unless the City has the funds available to accept delivery and make payment on the settlement date.
  - 3. There will be a maximum of 45 days between purchase and settlement of security.
- H. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.
- I. The City will routinely monitor ratings of obligations required by the Act or this Policy to maintain a minimum rating, including, but not limited to political subdivisions, commercial paper, mutual funds and pools.
- J. The City is not required to liquidate investments that were authorized investments at the time of purchase.

## VII. INVESTMENT STRATEGY BY FUND GROUPS

- A. **General Operating Funds.** This pooled investment group includes the general fund, debt service fund, escrow funds, special revenue funds, capital project funds, water and wastewater funds, gas lease funds, debt service reserve funds, and enterprise funds. The primary investment strategy for operating funds is to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar weighted average maturity of operating fund investments may not exceed eighteen months. The maximum maturity of an individual investment shall not exceed three years.

Suitability – Any investment eligible in the Investment Policy is eligible for General Operating Funds excluding guaranteed investment contracts.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the General Operating Fund's portfolio to less than 18 months and restricting the maximum allowable maturity to three years will limit the price volatility of the overall portfolio.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The General Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term depository institution deposits, investment pools, and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification – Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure out though three years will reduce market cycle risk.

Yield – Attaining a competitive market yield for comparable investment types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective.

- B. **Capital Project Funds.** These funds primary revenue source is bond proceeds and are subject to arbitrage yield limitations. They are normally invested as part of the General Operating Funds but may be separately invested under the following guidelines.

Suitability – Any investment eligible in the Investment Policy is eligible for Capital Project Funds.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the Capital Project Fund's portfolio to not exceed the lesser of the anticipated expenditure schedule or the I.R.S. temporary period the market risk of the overall portfolio will be limited.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The Capital Project Fund used for capital improvement programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally anticipate cash flow needs. Maintaining appropriate balances in short-term depository institution deposits, investment pools, and money market mutual funds will provide daily liquidity and fund unanticipated cash flow requirements A singular repurchase agreement may be utilized if disbursements are allowed in the

amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Diversification – Market conditions, maturities, and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investment for Capital Project Funds. Generally, when investment rates exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield – Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy’s risk constraints. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective for non-borrowed funds.

- C. **Working Capital Reserve Funds.** The primary investment strategy for working capital reserve funds is to provide income to the appropriate funds.

Suitability – Any investment eligible in the Investment Policy is eligible for Working Capital Reserve Funds excluding guaranteed investment contracts.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the Working Capital Reserve Funds to less than 4 years and restricting the maximum allowable maturity to 5 years will minimize the price volatility of the overall portfolio.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The Working Capital Reserve Funds require less liquidity than the General Fund. Liquidity will be maintained through investing in marketable securities.

Diversification – Investment maturities will generally be spread through the allowed maturity range.

Yield – Attaining a competitive market yield for comparable investment types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective.

- D. **Cowboys Stadium Complex Debt Service Reserve Funds and Debt Service Funds.** The primary investment strategy for this fund is to earn a interest income which will allow the City to accelerate the amortization of the Stadium debt and consequently to eliminate the 0.50% incremental sales tax, the incremental 2.00% Hotel Occupancy Tax and the 5.00% short term motor vehicle tax at an earlier date.

Suitability – Any investment eligible in the Investment Policy is eligible for Cowboys Stadium Complex Debt Service Reserve Funds and Debt Service Funds excluding guaranteed investment contracts.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the Cowboys Stadium Complex Debt Service Reserve Funds, to less than 10 years and , restricting the maximum allowable maturity to 10 years will minimize the price volatility of the overall portfolio. The Cowboys bonds are expected to be paid off in 2023 so maturities for this fund should not extend beyond 8/15/2023. Funds will be invested to ensure sufficient liquidity will be available to make scheduled debt service payments.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The Cowboys Stadium Complex Debt Service Reserve Funds and Debt Service Funds require less liquidity than the General Fund. Liquidity will be maintained through investing in marketable securities.

Diversification – Investment maturities will generally be spread through the allowed maturity range.

Yield – Attaining a competitive market yield for comparable investment types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective.

- E. **Self-Insurance Funds.** The primary investment strategy for self-insurance funds is to match investments with actuarially estimated cash payments. The secondary investment strategy is to provide a reliable income stream for these funds.

Suitability – Any investment eligible in the Investment Policy is eligible for Self-Insurance Funds excluding guaranteed investment contracts.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the Self-Insurance Funds to less than 5 years and restricting the maximum allowable maturity to 7 years will minimize the price volatility of the overall portfolio.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The Self-Insurance Funds require less liquidity than the General Fund. Liquidity will be maintained through investing in marketable securities.

Diversification – Investment maturities will generally be spread through the allowed maturity range.

Yield – Attaining a competitive market yield for comparable investment types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective.

- F. **Landfill Closure and Post Closure Care Reserve Costs Trust.** The primary investment strategy for this fund is to match investments to the closure schedule. The secondary investment strategy is to provide a market rate of return.

Suitability – Any investment eligible in the Investment Policy is eligible for Landfill Closure and Post Closure Care Reserve Costs Trust excluding guaranteed investment contracts.

Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. Investments will be made to provide funds to match the capping schedule. The weighted average days to maturity for the Landfill Closure and Post Closure Care Reserve Costs Trust will not exceed 8 years and maximum allowable maturity is 10 years. Matching the maturities to the closure schedule will minimize the risk of realized price volatility. The expected final closure payment is 9/30/2025.

Marketability – Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity – The Landfill Closure and Post Closure Care Reserve Costs Trust will be invested to match the closing schedule. Additional liquidity will be maintained through investing in marketable securities.

Diversification – Investment maturities will generally be spread through the closure schedule range.

Yield – Attaining a competitive market yield for comparable investment types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling twelve-month Treasury bill portfolio will be the minimum yield objective.

#### VIII. SELECTION OF BANKS AND BROKER/DEALERS

- A. The Primary Depository shall be selected through the City's banking service procurement process, which is governed by Texas Local Government Code, Chapter 105 – Depositories for Municipal Funds . In selecting a primary depository, the overall service value to the City and credit worthiness of institutions shall be considered, and the Finance Department shall conduct a review of a prospective depository's credit characteristics and financial history.
- B. Investments shall only be made with those business organizations (including financial institutions, local government pools, mutual funds, and broker/dealers) that have provided the City with a signed instrument certifying that they have read and understand the City's Investment Policy, provided it to all sales personnel of the firm having contact with the City, and implemented reasonable procedures and controls designed to preclude imprudent investments on behalf of the City. The Investment Committee shall annually review, revise, and adopt a list of qualified broker/dealers.

#### IX. COLLATERAL

- A. **Financial Institution Deposits.** The City's Primary Depository and other depository institutions are required to comply with Government Code Chapter 2257, Collateral for Public Funds. Eligible collateral as defined in Chapter 2257 shall be deposited with a third party custodian, as applicable, prior to the deposit of any City funds. The pledged collateral must be maintained at all times during the term of the Depository contract

at the levels required in this section. In order to perfect the City's security interest in the pledged collateral under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), it is required that a collateral agreement between the City and Depository, be signed by both parties prior to the deposit of City funds. The collateral agreement must be approved by the Board of Directors or Designated Committee of the Depository as reflected in certified minutes given to the City. The signed collateral agreement, Board or Committee resolution, and minutes certifying approval of the collateral agreement must be presented to the City prior to the deposit of City funds.

**B. Securities and Insurance Approved for Collateral:**

1. United States Treasury notes, bills or bonds or obligations fully and unconditionally guaranteed as to principal and interest by the full faith and credit of the United States;
2. Obligations of an agency or instrumentality of the United States, including direct-issue mortgage-backed securities eligible as collateral as per the Government Code Chapter 2257;
3. Letter of Credit issued to the City by an agency or instrumentality of the United States,
4. Surety bond approved by the Investment Committee, and
5. FDIC insurance coverage.

City deposits shall be collateralized at 102% of market value, for all non-mortgage backed securities with a remaining maturity of three (3) years or less, and at 105% of market value for all other listed securities.

The City reserves the right to accept or reject any form of collateral or enhancement at its sole discretion

**C. Collateral Substitution.** Substitutions may be made after obtaining permission from the City. Depositories or repurchase agreement sellers may also request release of collateral whenever the total amount pledged is in excess of City requirements.

**D. Custodian of Collateral.** Securities pledged as collateral must be retained by an independent third party custodian. The custodian must be approved by the City and be either:

1. A state or national bank that has its main office or branch office in Texas that is eligible to serve as custodian as per the Government Code Chapter 2257,
2. A Federal Home Loan Bank, or
3. A Federal Reserve Bank or branch of a Federal Reserve Bank.

The City shall be provided the original safekeeping receipt on each pledged security.

E. **Monthly Collateral Report.** The Custodian shall provide to the City on a timely basis a monthly report of pledged securities. The report should give the following information:

1. Security type and description including CUSIP, coupon, maturity and call dates (if callable);
2. Original Par Value and Current Par Value; and
3. Market Value at month end.

X SAFEKEEPING, CUSTODY AND MARKET PRICING

A. All investment securities, including repurchase agreements, shall be purchased using the delivery versus. payment procedure. The securities shall be delivered to the City's safekeeping bank and held on behalf of the City. Safekeeping receipts shall be delivered to the City. The safekeeping bank records will be reviewed monthly to assure the notation of the City's ownership of such securities.

B. Securities owned by the City shall be repriced monthly by one of the following methods:

1. Interface with a professional repricing service
2. Market levels from a real-time investment service
3. Prior day quotes from the Wall Street Journal, or
4. Other source deemed reliable by the Investment Committee.

Pursuant to GASB marked to market requirements, unrealized gains or losses at fiscal year-end shall be reserved in fund balance.