CITY OF BEEVILLE
RESOLUTION NO. 2020-06

A RESOLUTION OF THE CITY OF BEEVILLE, TEXAS, AMENDING THE CITY OF BEEVILLE INVESTMENT POLICY AND STRATEGY ATTACHED HERETO AS "EXHIBIT A"; DECLARING THAT THE CITY COUNCIL HAS COMPLETED ITS REVIEW OF THE INVESTMENT POLICY AND INVESTMENT STRATEGIES OF THE CITY AND THAT "EXHIBIT A" RECORDS ANY CHANGES TO THE INVESTMENT POLICY AND STRATEGIES; PROVIDING A REPEALING CLAUSE; PROVIDING A SEVERABILITY CLAUSE; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, in accordance with the Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code, the City Council of the City of Beeville, Texas by resolution amending the investment policy and strategy; and

WHEREAS, Section 2256.005 of the Texas Government Code requires the City Council to review the investment policies and investment strategies not less than annually and to adopt a resolution or order stating that the review has been completed and recording any changes made to the Investment Policy and Strategy.

WHEREAS, the attached investment policy and incorporated revisions comply with the Public Funds Investment Act, as amended, and authorized the investment of city funds in safe and prudent investments.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BEEVILLE:

SECTION 1. That the City Council of the City of Beeville has completed its review of the investment policies and investment strategies and any changes made to either the investment policies or investment strategies are recorded in "Exhibit A" hereto.

SECTION 2. That the City Council of the City of Beeville has approved the additions of an existing investments section pursuant to PFIA 2256.017 & 2256.021, updating the number of hours needed to renew the PFIA certificate for Investment Officers, adding a statement in pursuant with PFIA 2256.025, and approving a list of authorized broker/dealers and investment pools.

SECTION 3. That all provisions of the resolutions of the City of Beeville, Texas, in conflict with the provisions of this resolution be, and the same are hereby, repealed, and all other provisions not in conflict with the provisions of this resolution shall remain in full force and effect.

SECTION 4. That should any word, sentence, paragraph, subdivision, clause, phrase or section of this resolution be adjudged or held to be void or unconstitutional, the same shall not affect the validity of the remaining portions of said resolution which shall remain in full force and effect.

SECTION 5. That this resolution and the Investment Policy and Strategy shall take effect immediately from and after its passage.

DULY PASSED AND APPROVED this the 26th day of May A.D., 2020.

CITY OF BEEVILLE

Francisco Dominguez Jr., Mayor

ATTEST:

Gabriela Hernandez, City Secretary

APPROVED AS TO FORM:

Frank W. Warner, City Attorney

"Exhibit A"

CITY OF BEEVILLE

INVESTMENT POLICY AND STRATEGY

Updated Version: May 26, 2020

Original Approved by City Council Action: December 12, 1995

TABLE OF CONTENTS

INTRODUCTION

This Policy establishes policies for the cash management and investment of funds of the City of Beeville in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, (the "ACT"), Public Funds Collateral Act, Chapter 2257, Texas Government Code, and other applicable federal, state and local requirements.

Investments shall be made in a manner which will provide the maximum security of principal while meeting the daily cash flow needs of the City and conforming to the ACT. The receipt of market rate of returns will be secondary to the requirements for safety and liquidity. The earnings from investment will be used in a manner that best serves the interests of the City.

Investments shall be made with the primary objectives of:

- Safety of City funds
- Maintenance of sufficient Liquidity
- Public Trust
- Yield (optimization of interest earnings on the portfolio)
- Diversification of investments

I. PURPOSE

A. Scope

The Investment Policy applies to all of the investment activities of the City. This Policy establishes guidelines for 1) who can invest City funds, 2) how City funds will be invested, and 3) when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

The below funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

1. General Fund (Pooled Cash & TexPool)
2. Utility Fund (Pooled Cash)
3. Special Revenue Funds (Pooled Cash, TexPool, Bonds, Grants & other Bank Accounts)
4. Debt Service Funds (Pooled Cash)
5. Capital Projects Funds (Pooled Cash, TexPool, Money Markets)
6. Economic Improvement Funds (Pooled Cash & CD's)
7. Any new funds created, unless specifically exempted

This investment policy shall apply to all transactions involving the financial assets and related activities for all foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City by outside agencies under deferred compensation programs.

B. Policy Exclusions:

1. Employee Retirement and Pension Funds administered or sponsored by the City.
2. Defeased bond funds held in trust escrow accounts.

C. Review and Amendment

The governing body (City Council) of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body (City Council) shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies pursuant to *PFIA § 2256.005(e).*

II. INVESTMENT OBJECTIVES

A. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they be from security defaults or erosion of market value.

B. Maintenance of Adequate Liquidity

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, investing in local government investment pools, and maintaining appropriate portfolio diversification.

C. Public Trust

All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

D. Yield (Optimization of Interest Earnings)

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

E. Diversification

It is the City's policy to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from overconcentration of assets in a specific maturity, specific issuer, or specific class of investment, when appropriate. Cash flow projections shall be utilized to spread investment.

F. Monitoring

The City shall monitor credit rating changes in investments acquired and held through communication with broker dealers, rating agencies, and media research pursuant to *PFIA § 2256.005.*

- Should an issuer experience a downgrade of its credit by a nationally recognized credit rating agency, the Finance Director with the approval of the City Council/Board may approve the holding of the investment to maturity or until it is beneficial for the City to redeem the security pursuant to *PFIA § 2256.021*.

III. INVESTMENT POLICIES

A. Eligible Investments Authorized

Investments described below are authorized by the ACT as eligible securities for the City. The purchase of specific issues may at times be restricted or prohibited by the Investment Officers. The City funds governed by this Policy may be invested in:

1. Obligations of the United States, its agencies and instrumentalities, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits.

2. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, State of Texas or the United States or their respective agencies and instrumentalities, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits.

3. Fully collateralized repurchase agreements having a defined termination date, placed through the City's Depository Bank, or a financial institution domiciled in Texas, and secured by obligations as described by the ACT, pledged with a third party selected or approved by the City Council, and having a market value of not less than the principal amount of the funds disbursed. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.

4. Certificates of deposit issued by the state and national banks and savings and loan associations, and share certificates issued by a state or federal credit union domiciled in Texas that are:

    a. Guaranteed or insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund or their successors; or, secured by obligations that are described by III.A.1 and 2 above, which are intended to include all direct Federal agency or instrumentality issued mortgage backed securities, but excluding those mortgage backed securities of the nature described in *PFIA* § 2256.009(b) of the Texas Government Code, that have market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City;

    b. Governed by a Depository Contract, as described in C.3 of this section, that complies with Federal and State regulation to properly secure a pledged security interest; and,

    c. Solicited for bid orally, in writing, electronically, or any combination of those methods.

5. Money market mutual funds who are rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service, registered with the Securities & Exchange Commission (SEC), provide a prospectus, have a dollar weighted average portfolio maturity of 90 days or less; that fully invest dollar-for-dollar all City funds without sales commissions or loads; and, whose investment objectives include seeking to maintain a stable net asset value of $1 per share. The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund or exceeds 80% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service in money market mutual funds.

6. Eligible Investment Pools as defined in *PFIA* § 2256.016 of the Texas Government Code provided that (a) investment in the particular pool has been authorized by the City Council; (b) the pool shall have furnished the Investment officers or other authorized representatives of the City and offering circular containing the information required by Section 2258.016(b) of the Government Code; (c) the pool shall furnish to the Investment Officers or other authorized representatives of the City investment transaction confirmations with respect to all investments made with it; (d) the pool shall furnish to the Investment Officers or other authorized representatives of the City, monthly reports that contain the information required by *PFIA* § 2256.016(c) of the Government Code; (e) the pool's assets shall consist exclusively of the obligations that are described by III.A.5 above; (f) and whose investment philosophy and strategy are consistent with this Policy and the City's ongoing investment strategy.

B. Unauthorized Investments

The City's authorized investments options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

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.

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. Existing Investments

Any investment currently held that does not meet the guidelines of this policy, but was authorized at the time of purchase, is not required to be liquidated pursuant to *PFIA* § 2256.017. However, If the rating requirements on an authorized investment cannot be met, prudent action must be taken that is consistent with this Investment Policy to liquidate an investment that no longer qualifies as an authorized investment pursuant to *PFIA* § 2256.021.

D. Protection of Principal

The City shall seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy; by collateralization as required by law; and through portfolio diversification by maturity and type.

The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the City's Safekeeping Agent. By so doing, City funds are not released until the City has received, through the Safekeeping Agent, the securities purchased.

1. Diversification by Investment Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by funds are as follows:

a. Operating Pool
The weighted average days to maturity for the operating fund portfolio shall be less than 90 days and the maximum allowable maturity shall be one year.

b. Bond and Certificate Capital Project Funds and Special Purpose Funds
The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period bond proceeds, may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

c. Debt Service Funds
Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers shall invest in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

d. Debt Service Reserve Funds

Market conditions, Bond Resolution constraints and Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shalt not exceed the final maturity of the bond issue. All Debt Service Reserve Fund investment maturities shall not exceed two years.

City funds that are considered "bond proceeds" for arbitrage purposes will be invested using a more conservative approach that the standard investment strategy when arbitrage rebate rules require refunding excess earning. All earnings in excess of the allowable arbitrage earnings ("rebate liability") will be segregated and made available for any necessary payments to the U.S. Treasury.

2. Ensuring Liquidity

Liquidity shall be achieved by anticipating cash flow requirements, by investing in securities with active secondary markets and by investing in eligible money market mutual funds and local government investment pools.

A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings or otherwise to adjust the portfolio.

3. Safekeeping

a. Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as a part of its investment portfolio or as part of its depository and repurchase agreements.

b. Safekeeping of Certificate of Deposit Collateral

All collateral securing bank and savings and loan deposits must be held by a third-party banking institution acceptable to, and under contract with the City, or by the Federal Reserve Bank.

c. Safekeeping of Repurchase Agreement

The securities purchased under repurchase agreements must be delivered to a third-party custodian with which the City has established a safekeeping agreement.

d. Securities/ Collateral

Securities and collateral will be held by a third-party custodian designated by the entity, and held in the entity's name as evidenced by safekeeping receipts of the institution with which the securities are deposited

E. Investment Advisors and Broker/Dealers

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. All City investment portfolios shall be actively managed to enhance overall interest income. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care." Investment Broker/Dealers shall adhere to the spirit, philosophy and specific term of this Policy and shall avoid recommending or suggesting transactions outside that "Standard of Care."

Selection of Investment Advisors and Broker/Dealers will be approved by the City Council upon recommendation from the Investment Officers, The Investment Officers will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

- Adherence to the City's policies and strategies

- Investment performance and transaction pricing within accepted risk constraints
- Responsiveness to the City's request for services, information and open communication
- Understanding of the inherent fiduciary responsibility of investing public funds
- Similarity in philosophy and strategy with the City's objectives

Selected Investment Advisors and Broker/Dealers shall provide timely transaction confirmations and monthly portfolio reports.

A Broker/Dealer eligible to transact investment business with the City shall be presented a written copy of this Investment Policy. Additionally, the registered principal of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the registered principal has:

1. Received and reviewed this Investment Policy, and
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City

The City shall not enter into an investment transaction with a Broker/Dealer prior to receiving the written instrument described above.

The City Council in accordance with *PFIA* § 2256.025, shall at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

F. Competitive Bidding

Investment transactions will normally be conducted based on comparison of three quotes obtained from any of the approved brokers with attention to yield as well as diversification with regard to issuing entity and broker/dealer. Limitations of a particular investment type, time and supply may provide otherwise.

G. Responsibility and Controls

1. Authority to Invest

The City Manager and Director of Finance are the "Investment Officers" of the City. As Investment Officers, they are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage City funds according to this Policy.

The Investment Officers shall attend investment training to include at least a total of eight (8) ~~ten (10)~~ hours of renewal training in a two-year period, that begins on the City's first day of the fiscal year (October 1) and ending two consecutive fiscal years after that date (September 30). A newly appointed Investment Officer must attend a training session of at least ten (10) hours of instruction within twelve (12) months of the date the officer took office or assumed the officer's duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City may engage in an investment transaction. These include, but are not limited to, Texas Municipal League (TML), Government Finance Officers' Association (GFOA), Government Finance Officers' Association of Texas (GFOAT), Government Treasurers' Organization of Texas (GTOT), Texas City Managers' Association (TCMA), International City Managers' Association (ICMA), or University of North Texas (UNT).

2. Standard of Prudence

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and internal procedures. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the investment of all funds over which the Investment Officer had responsibility; rather that the prudence of a single investment shall be considered. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

The standard of care used by the City shall be the "prudent investor rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Investment Act states:

"Investment shall be made with judgment and care, under circumstances then prevailing 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." (*PFIA* § 2256.006 H.B. No. 2459)

3. Standards of Ethics/Conflict of Interest

The designated investment Officers shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Investment Officers 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. Additionally, all Investment Officers shall file with the Texas Ethics Commission and the City a statement disclosing any personal business relationship with an entity seeking to sell investments to the City or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the City as determined under Chapter 573 (see Appendix D).

4. Indemnification

The Investment Officers, acting in accordance with written procedures and this policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

5. Establishment of Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The results of this review shall be reported to the City Council. The internal controls shall address the following points:

a. Control of collusion.

b. Separation of transaction authority from accounting and record keeping.

c. Custodial safekeeping.

d. Avoidance of physical delivery securities.

e. Clear delegation of authority to subordinate staff members.

f. Written confirmation for telephone (voice) transactions for investments and wire transfers.

g. Development of a wire transfer agreement with the depository bank or third-party custodian.

6. Reporting

Investment performance will be monitored and evaluated by the Investment Officers. The Investment Officers will provide a quarterly comprehensive report pursuant to *PFIA § 2256.023* signed by all Investment Officers to the City Council.

a. Methods

The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:

(1) A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.

(2) Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased.

(3) Additions and changes to the market value during the period.

(4) Fully accrued interest for the reporting period.

(5) Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.

(6) Listing of investments by maturity date.

(7) The percentage of the total portfolio which each type of investment represents.

(8) Statement of compliance of the City's investment portfolio with State Law and the investment policy and strategy approved by the City Council.

The City, in conjunction with the annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's Investment Policy and Strategy.

IV. COLLATERALIZATION

Consistent with the requirements of State law, the City requires all bank and savings and loan association deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City Depositories will be required to sign a Depository Agreement with the City and the City's safekeeping agent. The safekeeping portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
- the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;

- the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the City;

- the Agreement must be part of the Depository's "official record" continuously since its execution.

Repurchase agreements must also be secured in accordance with State law. Each counter party to a repurchase transaction is required to sign a copy of the Public Securities Association Master Repurchase Agreement as approved by the City. An executed copy of this Agreement must be on file before the City will enter into any transactions with a counter party. All Master Repurchase Agreements must be approved by the Investment Officers.

A. Allowable Collateral

1. Certificates of Deposit
    a. Eligible securities for collateralization of deposits are defined by the ACT, as amended, have a stated final maturity of ten (10) years or less and meet the constraints of this Policy.

2. Repurchase Agreements
    a. Securities underlying repurchase agreements are limited to U.S. Government, Agencies and Instrumentalities obligations, which are eligible for wire transfer (i.e., book entry) to the City designated safekeeping agent through the Federal Reserve System and meet the constrains of this Policy.

B. Collateral Levels

1. Certificates of Deposit
    a. The market value of the principal portion of collateral pledged for certificates of deposit must at all times be equal to, or greater than the par value of the certificate of deposit plus accrued interest, less the applicable level of FDIC insurance.
2. Repurchase Agreements
    a. A repurchase agreement's security value shall be the par value plus accrued interest, and the security's market value must be maintained at the following minimum levels:
    b. <u>Agreement Maturities Greater Than One Business Day</u>
    c. U.S. Treasury Securities 102%
    d. U.S. Agency and Instrumentalities 103%
    e. Mortgage Backed Securities 105%
    f. <u>Agreement Maturities of One Business Day</u>
    g. All Securities 100%

C. Monitoring Collateral Adequacy

1. Certificates of Deposit
    a. The City shall require monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposit. The Investment Officers will monitor adequacy of collateralization levels to verify market values and total collateral positions.
2. Repurchase Agreements
    a. Monitoring by the Investment Officers of market values of all underlying securities purchased for City repurchase transactions is required. More frequent monitoring may be necessary during periods of market volatility.

D. Additional Collateral and Securities

1. Certificates of Deposit

a. If the collateral pledged for a certificate of deposit falls below the par value of the deposit, plus accrued interest less FDIC insurance, the institution issuing the C.D.'s will be notified by the Investment Officers and will be required to pledge additional securities no later than the end of the next succeeding business day.

2. Repurchase Agreement
    a. If the value of the securities underlying a repurchase agreement falls below the margin maintenance levels specified above, the Investment Officers will request additional securities. If the repurchase agreement is scheduled to mature within five business days and the amount is deemed to be immaterial, then the request is not necessary.

E. Collateral Substitution

1. Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker, dealer or financial institution requesting substitution must contact the Investment Officers for approval and settlement. The substituted security's value will be calculated, and substitution approved if its value is equal to or greater than the required security level. The Investment Officers, or a designee, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expenses. The Investment Officers may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

V. INVESTMENT STRATEGY

The City of Beeville maintains portfolios that utilize three specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

- Investment strategies for operating funds (pooled monies) have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. By combining the net cash flows of all funds, the pooled investment strategy maximizes return on investment without sacrificing safety and liquidity because economies of scale can be taken advantage of to obtain better prices and reduce transaction and administrative costs. The dollar weighted average maturity for the pooled fund group will not exceed 90 days.

- Investment strategies for debt service and debt service reserve funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.

- Investment strategies for special projects or special revenue funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

A. Operating Funds

1. Suitability - Any investment eligible in the Investment Policy is suitable for the Operating Funds.

2. Safety of Principal - All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur, and by managing the weighted average days to maturity for the Operating Funds portfolio to less than 90 days and restricting the maximum dollar-weighted average maturity to one year, the price volatility of the overall portfolio will be minimized.

3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical marker "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

4. Liquidity - The Operating Funds require the greatest short-term liquidity of any of the fund types. Short term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

5. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through one year.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling six (6) month treasury bill portfolio shall be the minimum yield objective. Additionally, the Investment Committee shall compare the Operating Pool's performance to other appropriate benchmarks.

B. Bond and Certificate Capital Project Funds and Special Purpose Funds

1. Suitability - Any investment eligible in the Investment Policy is suitable for the Bond and Certificate Capital Project and Special Purpose Funds.
2. Safety of Principal - All investments will be of high-quality securities with no perceived default risk. Market price fluctuations will however occur, and by managing the Fund's portfolio to exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized.

3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

4. Liquidity - Investment strategies for bond and certificate capital project funds, special projects and special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Bond proceeds used for construction programs have reasonably predicable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. 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.

5. Diversification - Market conditions and the arbitrage regulate the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the City is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger lumps. At no time, shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

6. Yield - Achieving a positive spread to the applicable arbitrage yield is the desired objective. Negative arbitrage Fund's portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy. The yield of an equally weighted, rolling three (3) month treasury bill portfolio shall be the minimum yield objective.

C. Debt Service Funds

1. Suitability - Any investment eligible in the Investment Policy is suitable for the Debt Service Fund.

2. Safety of Principal - All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur, and by managing the Debt Service Fund's portfolio to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

3. Marketability - Securities with active and efficient secondary markets are not necessarily due to the unlikely event of an unanticipated cash flow requirement. Investment pools and money market mutual funds shall provide a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount referred to as a flexible repurchase agreement.
4. Liquidity - Debt Service funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment, this investment structure is commonly referred to as a flexible repurchase agreement.

5. Diversification - Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the City is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger lumps. At no time, shall the debt service schedule be exceeded in an attempt to bolster yield.

6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three (3) month treasury bill portfolio shall be the minimum yield objective.

D. Debt Service Reserve Funds

1. Suitability - Any investment eligible in the Investment Policy is suitable for the Debt Service Reserve Fund. Bond resolution constraints and insurance company restrictions create issue-specific considerations in addition to the Investment Policy.

2. Safety of Principal - All investments will be of high-quality securities with no perceived default risk. Market price fluctuations will however occur, and by managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the City's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue. Annual market-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to the City's bond holders. The funds are "returned" to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally,

if investment rates exceed the applicable arbitrage yield for a specific bond issue, the City is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time, shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

6. Yield - Achieving a positive spread to the applicable arbitrage yield is the desired objective. Negative arbitrage Debit Service Reserve Funds portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy. The yield of an equally weighted, rolling three (3) month treasury bill portfolio shall be the minimum yield objective.

APPENDIX A

BROKER/DEALER **QUESTIONNAIRE**
CITY OF BEEVILLE

1) Name of Firm:

2) Local Address:

3) National Address:

4) Telephone:

5) PRIMARY REPRESENTATIVE / MANAGER / PARTNER-IN-CHARGE

- Secondary representative / manager / partner-in-charge

6) Are you a Primary Dealer in U.S. Government Securities?

7) What is the date of your firm's fiscal year end?

8) Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

9) Is your firm owned by a holding company? If so, what is its name and net capitalization?

10) Identify all personnel who will be trading with or quoting securities to our employees (attach current resumes of all persons listed).

11) Please identify your most directly comparable client's geographical area.

12) Have any of your public-sector clients ever sustained or claimed a loss on a securities transaction or loss of principal arising from a misunderstanding or misrepresentation of the risk characteristics of a recommended instrument purchased through your firm?

13) Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities of securities or money market instruments? If yes, please explain.

14) Please provide your wiring and delivery instructions.

15) Which instruments are offered regularly by your local desk?

16) Which of the above does your firm specialize in marketing?

17) What reports, transactions, confirmations and paper trail will we receive?

18) What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?

19) What training would you provide for the employees and investment officers?

20) Do you participate in the SIPC Insurance Program? If not, please explain.

21) What portfolio information do you prefer from your clients?

22) Please include samples of research reports or market information that your firm regularly provides to clients.

APPENDIX B

Certification by Dealer

This certification is executed on behalf of the City of Beeville and ______________________________ (the Dealer) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the ACT) in connection with investment transactions conducted between the City and Dealer.

The undersigned Qualified Representative of the Dealer hereby certifies on behalf of the Dealer that:

1. The Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Dealer, and
2. The Dealer Qualified Representative has received and reviewed the Investment Policy furnished by the City, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the City that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

Dealer Qualified Representative

____

Signature

____

Name (Printed)

____

Title

____

Date

APPENDIX C

Approved/Authorized List of Broker/Dealers and Investment Pools

The following Broker/Dealers are authorized to engage in investment transactions with the City of Beeville:

- **BOK Financial**

The following Investment Pools are authorized to engage in investment transactions with the City of Beeville:

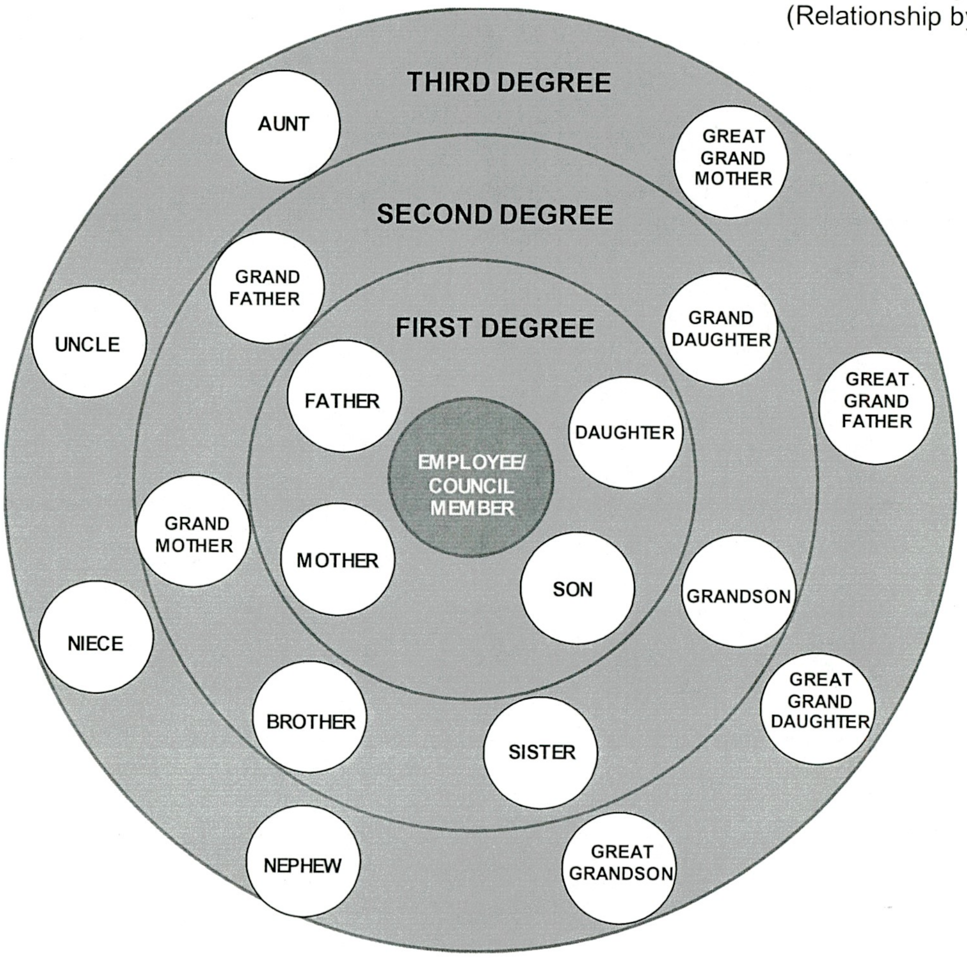
- **TexPool Participant Services**

Certificates of deposit may be purchased from Texas depository institutions, which are not on the approved broker/dealer list, as they are considered depository in nature. Certificates of deposit purchased from brokerage firms, however, must be on the approved broker/dealer list as they fall under the PFIA. All deposits over the FDIC limit must be collateralized.

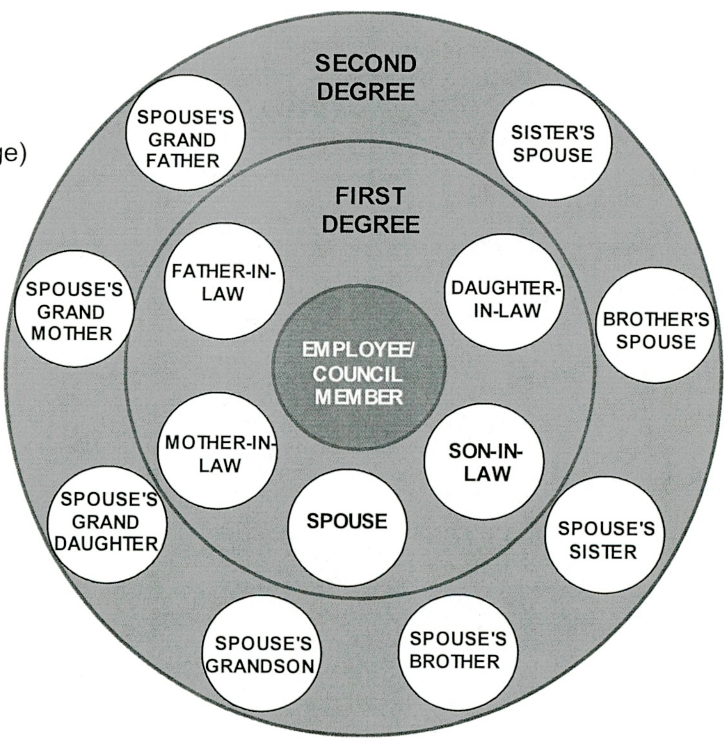
APPENDIX D

Nepotism Charts

Consanguinity Kinship
(Relationship by Blood)



Affinity Kinship
(Relationship by Marriage)



APPENDIX E

GLOSSARY OF INVESTMENT TERMINOLOGY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BASIS POINT: A basis point equals one one-hundredth of 1% (. 01%).

BID: The price offered for securities.

BOOK ENTRY SECURITIES: All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as "wireable" securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

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.

CERTIFICATE OF DEPOSIT: A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for the dealer's own account.

DEFEASANCE: Is a provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt. Also, referred to as "defease or defeased." Securities that have been secured by another asset, such as cash or a cash equivalent, by the debt-issuing firm. Firms that have created defeased securities, which are typically bonds, will have sufficient cash set aside for retirement of the debt upon maturity.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEBENTURE: Is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital.

DISCOUNT: The difference between the cost price of security and its value at maturity when quoted at lower than face value.

DISCOUNT SECURITIES: Securities that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills. Interest is received at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities and financial institutions offering.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S & L' s, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS: Non-interest bearing deposits held by member banks at the Federal Reserve.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL DEPOSIT INSURANCE CORPORATION: A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL HOME LOAN BANKS: The institutions that regulate and lend to savings and loan associations.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): A U. S. corporation and instrumentality of the U. S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC' s securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was charted under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporations' s purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. 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., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder are protected by full faith and credit of the U.S. Government.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurers for investment.

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

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

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. Purchasers 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.

PORTFOLIO: Collection of securities held by an investor.

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.

PRIME RATE: The rate at which banks lend to their best or "prime" customers.

QUALIFIED REPRESENTATIVE: a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
2. for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
3. for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
4. for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held for protection.

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

TRADE DATE: The date on which a transaction is initiated or entered into by the buyer or seller.

TREASURY BILL: A discount security issued by the U.S. Treasury to finance the national debt that matures from three months to one year.

TREASURY BONDS: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term U.S. Treasury securities having initial maturities from one to ten years.

WHEN-ISSUED TRADES: Typically, there is a delay between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "wi", "when, as, and if issued".

YIELD: The rate of annual income returns on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD OR YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the security.

GOVERNMENT CODE, TITLE 10. GENERAL GOVERNMENT, SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT, CHAPTER 2256.PUBLIC FUNDS INVESTMENT, SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Can be found at: http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2256.htm

GOVERNMENT CODE, TITLE 10. GENERAL GOVERNMENT, SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT, CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

Can be found at: http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2257.htm

GOVERNMENT CODE, TITLE 10. GENERAL GOVERNMENT, SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT, For expiration of this chapter, see Section 2270.0251., CHAPTER 2270. PROHIBITION ON INVESTING PUBLIC MONEY IN CERTAIN INVESTMENTS

Can be found at: https://statutes.capitol.texas.gov/Docs/GV/htm/GV.2270.htm#2270