CARROLLTON
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INVESTMENT POLICY

THE FOUNDATION

FOR

A TREASURY MANAGEMENT PROGRAM

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INVESTMENT POLICY

It is the policy of the City of Carrollton to actively invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statues governing the investment of public funds.

I. Scope

This policy applies to all financial assets and investment activities of all current funds of the City of Carrollton, Texas and any new funds created in the future, unless specifically excluded hereafter, will be administered in accordance with the objectives and restrictions set forth in this investment policy. These funds are accounted for in the City's Comprehensive Annual Financial Report and are divided as follows:

A. Funds Included:
1) Governmental Funds
2) Proprietary Funds

B. Funds Excluded: This policy shall not govern funds which are managed under separate investment programs. Such funds currently include:
1) funds established by the City for deferred employee compensation plans
2) City's participation in the Texas Municipal Retirement System
3) defeased bonds held in trust escrow accounts

C. Pooling of Funds: *Except* for cash in certain restricted and special funds, the City of Carrollton will combine cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition, all the bond funds proceeds (to include capital projects, debt service and reserve funds) will be managed by the governing debt ordinance and the provisions of the Internal Revenue Code of 1986 applicable to the issuance of tax-exempt obligations and the investment of debt proceeds.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be preservation and safety of principal, liquidity, and yield:

A. Safety: The foremost and primary objective of the City's investment program is the preservation and safety of principal in the overall portfolio. Each investment transaction will seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value. The objectives will be to mitigate credit risk and interest rate risk.

1) Credit Risk: The City of Carrollton will minimize credit risk, the risk of loss due to default of a security issuer or backer, by:
   - limiting investments to the safest types of securities;
   - pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and
   - diversifying the investment portfolio so that potential losses on individual securities will be minimized.
   - Monitoring rating changes in investments acquired and held through communication with broker dealers, rating agencies, media research and the city's investment pricing vendor.

   Should an issuer experience a downgrade of its credit by a nationally recognized credit rating agency, the Chief Financial Officer and/or the Treasurer with the approval of the Finance Committee may approve the holding of the investment to maturity or until it is beneficial for the City to redeem the security.

2) Interest Rate Risk: The City of Carrollton will minimize the interest rate risk, related to the decline in market value of securities in the portfolio, due to changes in general interest rates, by:

- structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity;
- monitoring credit rating of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act (Chapter 2256, Government Code); and
- investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. **Liquidity:** The City's investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Liquidity will be achieved by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

C. **Yield:** The City's investment portfolio shall be designed with the objective of attaining or exceeding a market rate of return compared to a benchmark of a rolling average of treasuries with comparable maturities to the total weighted average maturity of the portfolio throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1) A security with declining credit may be sold early to minimize loss of principal.
2) A security swap would improve the quality, yield, or target duration in the portfolio.
3) Liquidity needs of the portfolio require that the security be sold.
4) If market conditions present an opportunity for the City to benefit from the sale.

Funds held for future capital projects will be invested in securities that can reasonably be expected to produce enough income to offset inflationary construction cost increases. However, such funds will never be unduly exposed to market price risks that will jeopardize the assets available to accomplish their stated objective or be invested in a manner inconsistent with applicable federal and state regulations. Yields on debt proceeds that are not exempt from federal arbitrage regulations are limited to the arbitrage yield of the debt obligation. Investment officials will seek to preserve principal and maximize the yield of these funds in the same manner as all other City funds. However, it is understood that if the yield achieved by the City is higher than the arbitrage yield, positive arbitrage income will be averaged over a five year period and netted against any negative arbitrage income and the positive net arbitrage amount shall be rebated to the federal government as required by current federal regulations.

D. **Risk of Loss:** All participants in the investment process will seek to act responsibly as custodians of the public trust. Investment officials will avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body 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 the adequate diversification has been implemented and the terms of this policy have been followed.

III. Standards of Care

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

A. **Prudence:** The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio of funds. Investment officials acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the City Manager, Finance Committee and the City Council and appropriate action is taken in accordance with the terms of this policy.

B. **Ethics and Conflicts of Interest:** Investment officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Investment officials shall disclose in writing to the City's Secretary's office of any material interests they hold in financial institutions with which they conduct business with on behalf of the City. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with any individual with whom business is conducted on behalf of the City of Carrollton. Written Disclosure shall be made immediately upon discovery of the potential conflict.

C. **Delegation of Authority:** Oversight management responsibility for the investment program has been delegated to the Chief Financial Officer, to establish written procedures and controls for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for the daily cash management operation, the execution of investment transactions, overall portfolio management, and investment reporting. This delegation of authority has been made to the City Treasurer. The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, Public Securities Association (PSA) repurchase agreements, wire transfers agreements, banking service contracts and collateral/depository agreements.

D. **Subordinates:** All persons involved in investment activities shall be referred to as "Investment Officials". No person shall engage in an investment transaction except as provided under the terms of this policy, the procedures established by the Chief Financial Officer and the explicit authorization by the City Manager to withdraw, transfer, deposit and invest the City's funds. The City Council, by resolution, has authorized the City Manager to appoint these individuals. The Chief Financial Officer and the City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officials.

IV. Safekeeping and Custody

A. **Authorized Financial Dealers and Institutions:** The Treasurer will maintain an approved list of financial institutions and security broker/dealers selected by creditworthiness who are authorized to provide investment services to the City of Carrollton, Texas. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Texas laws.

The City Treasurer shall select at least one primary and three regional broker/dealers from the approved list to conduct most daily City investment business. These firms will be selected

based on the firm and individuals' background, experience and competitiveness. These firms will be reviewed at least annually required by the City Treasurer and changed as appropriate.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

1) Audited financial statements;
2) Proof of Financial Industry Regulatory (FINRA) Authority membership;
3) Proof registration with the State of Texas Securities Board;
4) Completed broker/dealer questionnaire; and
5) Texas Public Funds Investment Act acknowledgements from a business organization "qualified representative" of the financial institution or broker/dealer firm. All sales representatives on the City's accounts should certify that they have received, read, understood and agree to comply with the City's Investment Policy. The qualified representative should execute a written document acceptable to the City and the business organization (Appendix E).

A list of approved financial institutions and broker/dealer firms shall be maintained in Appendix A of this Investment Policy document. This approved list will be reviewed at least annually by the City Treasurer and any additions and deletions will be made as needed at that time. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Investment Officials. A current financial statement is required to be on file for each financial institution and broker/dealer in which the City of Carrollton invests its funds.

Investments shall only be made with those firms and institutions that have:

1) provided all information required above;
2) acknowledged receipt and understanding of the City's Investment Policy in writing;
3) executed by a principal of the business organization written Public Fund Investment Act acknowledgements; and
4) met the qualifications and standards established by the City's Finance Committee and set forth in this policy.

B. **Depository Selection:** Depositories should be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued not less than every five years with a typical contract being for two years with an option to extend the contract for an additional three years. In selecting depositories, the creditworthiness of institutions shall be considered, and the City Treasurer shall conduct a comprehensive review of prospective depositories, credit characteristics and financial history. No public deposit shall be made except in a qualified depository as established by state depository laws. The depository bank bid will not include bids for investment rates on certificates of deposit. Certificates of deposit rates will be bid competitively between financial institutions in accordance with the manner in which all other types of securities are purchased.

C. **Insurability:** Banks and Credit Unions seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit financial statements, evidence of federal insurance, and other information as required by the Investment Officials and the City of Carrollton.

D. **Collateralization of City's Deposits:** Collateralization shall be required on depository bank deposits, certificates of deposit, repurchase (reverse) agreements, and securities identified and in accordance with the City of Carrollton Investment Policy, "Public Funds Investment Act", "Public Funds Collateral Act" and depository laws (see Appendix C). In order to anticipate market changes and provide a level of security for all funds, the collateralization level will not be less than 110% of market value of principal and accrued interest less an amount of $250,000, which represents insurance by the FDIC on certain types of bank deposits. Evidence of the pledged collateral shall be documented by a safekeeping agreement or a master repurchase agreement with the collateral pledged clearly listed in the agreement and

safekeeping confirmations. The master repurchase agreement must be executed and in place prior to the investment of funds. Collateral shall be monitored daily to ensure that the market value of the securities pledged equals or exceeds the related deposit or investment balance. The City of Carrollton shall accept only the following securities as collateral for cash deposits, certificates of deposit, and repurchase agreements:

1) FDIC insurance coverage.
2) General obligations of the United States of America or its agencies and instrumentalities, including the Federal Home Loan Bank (as defined by PFIA and this investment policy).
3) Fixed rate collateralized mortgage obligations, the principal and interest on which are unconditionally guaranteed by the United States of America or their respective agencies and instrumentalities and does not constitute a high-risk mortgage security as established by Chapter 2257 Collateral for Public Funds see Appendix C – Public Funds Collateral Act).
4) Obligations of states, agencies thereof, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of no less than A or its equivalent.
5) Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit union Share Insurance.
6) Bonds issued, assumed, or guaranteed by the State of Israel.
7) Letter of credit issued to the City by the Federal Home Loan Bank.

The City shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the City's portfolio and if the securities are Collateralized Mortgage Obligations the maximum maturity of the collateral securities may be no greater than ten years. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The safekeeping agreement must clearly define the responsibility of the safekeeping bank. The safekeeping agreement shall include the authorized signatories of the City and the firm pledging collateral. Any substitutions of collateral must meet the requirements of the Public Funds Collateral Act, Public Funds Investment Act and this investment policy. Addition, released and substitution of additional collateral must be approved by at least one investment officer of the City in writing.

E. **Audit of Pledged Collateral:** All collateral shall be subject to verification and audit by the City Treasurer, the Chief Financial Officer, or the City's independent auditors.

F. **Delivery vs. Payment:** All security transactions, including collateral for repurchase agreements, entered into by the City of Carrollton shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third-party custodian approved by the City Treasurer or Chief Financial Officer and evidenced by safekeeping receipts.

G. **Safekeeping and Custody of Investment Assets:** All marketable securities transactions, including collateral for repurchase (reverse) agreements entered into by the City shall be executed (cleared and settle) using the delivery vs. payment (DVP) basis system. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the City's safekeeping bank. The City's safekeeping or custody bank is responsible for matching up instructions from the investment officials on each investment settlement with what is received from the broker/dealer, prior to releasing the City's designated funds for a given purchase. The security shall be held in the name of the City or held on behalf of the City in a nominee name. Securities will be held by a third-party custodian designated by the City Treasurer and evidenced by safekeeping receipts. The safekeeping bank's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City. A safekeeping agreement must be in place which clearly defines the responsibilities of the safekeeping bank.

V. Internal Controls

The Chief Financial Officer and the Treasurer are responsible for establishing and maintaining an internal control structure designed to protect the assets of the City of Carrollton. The internal control structure shall be designed to provide reasonable assurance that this objective is met.

Controls and managerial emphasis deemed most important that shall be employed where practical are:

- Control of collusion
- Separation of duties
- Separation of transaction authority from accounting and record keeping
- Custodian safekeeping receipts and records management
- Dual authorization of fed wire transfers
- Avoidance of physical delivery securities
- Documentation of investment bidding
- Clear delegation of authority to subordinate staff members
- Written confirmation from broker/dealers and financial institutions
- Reconcilements and comparisons of security receipts with the investment subsidiary records
- Compliance with investment policies
- Accurate and timely investment reports
- Adequate training and development of Investment Officials
- Verification of all investment income and security purchase and sell computations
- Review of financial condition of all broker/dealers and depository institutions
- Staying informed about market conditions, changes and trends that require adjustments in investment strategies

The above internal controls represent only a partial list of a system of internal controls. An annual process of independent review by an external auditor shall be established. This review will provide internal control by assuring compliance with laws, policies and procedures. This annual compliance audit is required by the "Public Funds Investment Act" [Section 2256.005(m)].

VI. Suitable and Authorized Investments by Policy

Investment type funds of the City of Carrollton, Texas (the "City") may be invested in the following investments, consistent with Chapter 2256 of the State of Texas Government Code, known as the "Public Funds Investment Act" (PFIA) and as authorized by this investment policy. Investments not specifically listed below will not be permitted by this policy.

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities, including the Federal Home Loan Bank

- Collateralized Mortgage Obligations (CMO) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with 10 years or less stated final maturity date.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the state of Texas 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 explicit full faith and credit of the United States; and
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by at least one nationally recognized investment rating firm not less than A or its equivalent.
- Bonds issued, assumed or guaranteed by the State of Israel.
- Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit union Share Insurance.

Investment officials of the city are not authorized to invest in:

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

A. **Certificate of Deposit** Will be selected after receiving bids from at least three depository Institutions or brokers dealers listed under "Approved Brokers Dealers" in this investment policy. The Certificates of Deposit must be issued by a depository institution that has its main office or a branch office in the state of Texas and is:
    1) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor;
    2) secured by obligations that are described by Section 2256.009(a) of the PFIA, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the PFIA; or
    3) secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of the City.

    In addition to the authority to invest funds in certificates of deposit as specified above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this policy if:
    1) the funds are invested by the City through;
        a) a broker that has a main office or branch office in the state of Texas and is selected from a list adopted by the City as required section 2256.025 of the PFIA and this policy; or
        b) a depository institution that has its main office or a branch office in the state of Texas and that is selected by the City;
    2) the broker or the depository institution selected by the City as specified above, arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City;
    3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
    4) the City appoints the depository institution selected by the City as required under caption "Certificates of Deposit" from
        a) a depository bank or a clearing broker dealer registered with the Securities and Exchange Commission Rule 15c-3 (17CFR, Section 240 15c3-3) as

custodian for the City's with respect to the certificates of deposit issued for the account of the City.

B. **Bankers' Acceptances** with a stated maturity of 180 days or less from the date of its issuance, in accordance with its terms, liquidated in full at maturity, eligible for collateral for borrowing from a Federal Reserve Bank and is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank or of a bank holding company of which the bank is the largest subsidiary are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency. ***No more than 10% of any one portfolio should be invested in bankers' acceptances and no more than 5% should be invested in the securities of a single bankers' acceptances issuer***.

C. **Fully Collateralized Repurchase Agreement** with a defined termination date, secured by obligations of the U.S. and its instrumentalities pledged to the City of Carrollton, held in the City's name, and deposited at the time the investment is made with the City with a third party selected and approved by the City, and placed through a primary broker/dealer or financial institution doing business in Texas. A master repurchase agreement must be executed and in place prior to the investment of funds. Collateralization of funds must be part of the agreement as stated in this investment policy under Collateralization of City Deposits.

   "Repurchase agreement" means a simultaneous agreement to buy, hold for a specified period of time (not to exceed 30 days after the date the security repurchase agreement is delivered) and sell back at a future date, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement. The agreements will be required to be priced not less than once a week.

D. **Fully Collateralized Reverse Security Repurchase Agreements** that do not exceed 30 days after the date the reverse security is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized ***investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.***

   Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the authorize investments acquired ***must not*** mature later than the expiration date stated in the reverse security repurchase agreement.

E. **Commercial Paper** with a stated maturity of 180 days or fewer from the date of its issuance, rated not less than A-1 or P-1, or an equivalent rating by at least two nationally recognized credit rating agencies, or 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 or any state. ***No more than 20% of any one portfolio should be invested in commercial paper and no more than 5% should be invested in the securities of a single commercial paper issuer***.

F. **No-Load Money Market Mutual Fund** registered with and regulated by the Securities and Exchange Commission and provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), with a dollar-weighted average stated maturity of 90 days or less, invest exclusively in securities authorized by this investment policy and includes in its investment objectives the maintenance of a stable net asset value of $1 for each share***.***

G. **No-Load Mutual Fund** registered with the Securities and Exchange Commission with an average weighted maturity of less than two years, invested exclusively in obligations approved

by this policy, is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent and conforms to the requirements set in the PFIA Sections 2256.016(b) and (c) comply with information reporting requirements for investment pools as described in the PFIA.

The City is not authorized to:

1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds
2) invest any portion of bond proceeds, reserves, and funds held for debt service in mutual funds
3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described herein in an amount that exceeds 10 percent of the total assets of the mutual fund

H. Guaranteed Investment Contracts will be authorized for bond proceeds only with a defined termination date, secured by obligations of the U.S. and its instrumentalities and in accordance with this policy, in an amount at least equal to the amount of bond proceeds invested under the contract, pledged to the City and deposited with the City or with a third party selected and approved by the City.

Only bond proceeds representing reserves and funds maintained for debt service purposes, may be invested in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

To be eligible as an authorized investment:

1) the governing body of the City must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
2) the City must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
3) the City must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
4) price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

I. Investment Pools

1) The City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this investment policy and the PFIA. The City by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

2) No more than 40% of any one portfolio should be invested in a specific Local Government Pool with the exception of a state of emergency declared by the City Council, which at the time the limits may exceed 60% of the total portfolio holdings.

3) To be eligible to receive funds from and invest funds on behalf of the City of Carrollton, an investment pool must furnish to the investment officer or other authorized representative of the City an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
    a. the types of investments in which money is allowed to be invested;
    b. the maximum average dollar-weighted maturity allowed, based on the stated maturity date of the pool;

c. the maximum stated maturity date any investment security within the portfolio has;
d. the objectives of the pool;
e. the size of the pool;
f. the names of the members of the advisory board of the pool and the dates their terms expire;
g. the custodian bank that will safekeep the pool's assets;
h. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
i. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
k. the name and address of the independent auditor of the pool;
l. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool;
m. the performance history of the pool, including yield and how is calculated, average dollar-weighted maturities, and expense ratios;
n. the pool's policy regarding holding deposits in cash; and
o. an audited financial report.

4) To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must furnish the investment officer or other authorized representative of the City with:
   a. investment transaction confirmations; and
   b. a monthly report that contains, at a minimum, the following information:
      i. the types and percentage breakdown of securities in which the pool is invested;
      ii. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
      iii. the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
      iv. the book value versus the market value of the pool's portfolio, using amortized cost valuation;
      v. the size of the pool;
      vi. the number of participants in the pool;
      vii. the custodian bank that is safekeeping the assets of the pool;
      viii. a listing of daily transaction activity of the entity participating in the pool;
      ix. the yield and expense ratio of the pool; including a statement regarding how yield is calculated
      x. the portfolio managers of the pool;
      xi. any changes or addenda to the offering circular; and
      xii. calculation of the yield in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission for investment pools for which a $1.00 net value is maintained.
5) To be eligible to receive funds from and invest funds on behalf of the City:
   a. a public funds investment pool that uses amortized cost or fair value accounting must mark its portfolio to market daily, and,
   b. if the investment pool uses amortized cost:
      i. the investment pool must, to the extent reasonably possible, stabilize at a $1.00 net asset value, when rounded and expressed to two decimal places. If the ratio of the market value of the portfolio divided by the book

value of the portfolio is less than 0.995 or greater than 1.005, the governing body of the public funds investment pool must take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. Must report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting money market funds;

b. have an advisory board composed equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools; and

c. be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

J. Securities Lending

1) Authorized investments eligible for securities lending are any investments herein authorized by the investment policy.

2) The following conditions must be met:

a. Collateralization shall be required on the securities lending agreement. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will not be less than 102% of market value of principal and accrued interest.

b. Securities held as collateral must be pledged to the City, held in the City's name and deposited with the City or with a third party selected and approved by the City.

c. Money received by the City under the terms of a securities lending agreement shall be used to acquire additional authorized investments. The term of the authorized **investments acquired must mature every 30 days and no later than the expiration date stated in the securities lending agreement.** The investments must be priced daily by an independent pricing entity.

d. A loan made under the program must allow for termination at any time and be secured by:

i. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.

ii. Direct obligations of the state of Texas or its agencies and instrumentalities.

iii. Collateralized Mortgage Obligations (CMO) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with 10 years or less stated final maturity date. Cannot be an inverse floater or a principal-only or interest-only CMO.

iv. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the state of Texas or the United States or their respective agencies and instrumentalities.

v. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by two nationally recognized investment rating firms at not less than A or its equivalent.

3) A securities lending agreement must have a term of one year or less and will be subject to termination at any time by the City.

4) The securities lending agreement will be placed through a primary dealer or a financial institution doing business in Texas.

VII. Investment Parameters

A. Bidding Process for Investments: Investment Officials for the City may accept bids for certificates of deposit and for all marketable securities either orally, in writing, electronically, or in any combination of these methods. The investment officials will strive to receive three price quotes on marketable securities being sold, but may allow one broker/dealer to sell at a predetermined price under certain market conditions. Investments purchased shall be shopped competitively between approved financial institutions and broker/dealers. Security swaps are allowed as long as maturity extensions, credit quality changes and profits or losses taken are within the other guidelines set forth in this policy.

B. Diversification: It is the policy of the City of Carrollton to diversify its investment portfolios. Assets held in each investment portfolio shall be diversified to eliminate the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Finance Committee and City Council.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

1) Portfolio maturities and potential call dates shall be staggered in a way that protects interest income from volatility of interest rates and avoids undue concentration of securities from a specific maturity or callable sector. Securities shall be selected which provide for stability of income and reasonable liquidity.
2) Risk of market price volatility shall be controlled through maturity diversification so that aggregate unrealized price losses on instruments with maturities exceeding one year shall not be greater than the coupon interest and investment income received from the balance of the portfolio.
3) The portfolio may be comprised of 100% of U.S. government obligations or 100% repurchase agreements. Other asset types shall be limited to no more than 20% of each portfolio. In addition commercial paper and bankers' acceptances shall be limited to no more than 5% of each portfolio held in any individual issuer name.
4) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
5) The Finance Committee shall review diversification strategies and establish or confirm guidelines on a quarterly basis regarding the percentages of the total portfolio that may be invested in securities other than treasuries and agencies. The Finance Committee shall review the quarterly investment reports and evaluate the probability of market and default risk in various investment sectors as part of its consideration.

C. Maximum Maturities: To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. The City of Carrollton will not directly invest in securities maturing more than ten years from the date of purchase and in accordance with state and local statutes and ordinances without the approval of Chief Financial Officer and Finance Committee. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as government pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

D. Maximum Dollar Weighted Average Maturity: Under most market conditions, the composite portfolio will be managed to achieve a two-year dollar-weighted average maturity. However, under certain market conditions, investment officials may need to shorten or lengthen the average life or duration of the portfolio to protect the City. The maximum dollar-weighted average maturity based on the stated final maturity, authorized by this investment policy for the composite portfolio of the City shall be four years.

E. Pricing: Market price for investments acquired for the City's investment portfolio shall be priced using independent pricing sources and market value monitor at least monthly. When independent pricing service is unable to provide a security price, an average of the bid price of the security by three broker/dealers will be used. A complete report including market value will be provided monthly to the Chief Financial Officer and quarterly to the City Council.

F. Investment Training: Investment officials shall have finance, accounting or related degree, and knowledge of treasury functions. The Chief Financial Officer, City Treasurer and all investment officials of the City shall attend 10 hours of training relating to cash management and investment responsibilities within twelve months after assuming these duties for the City. In addition, each investment official shall receive 8 hours of training once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive years after that date. Training should be provided from an independent source (see Appendix A) approved by the City's Finance Committee. Training must include education in investments controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Texas Public Funds Investment Act.

VIII. Investment Strategy

A. Active vs. Passive Strategy: The City of Carrollton intends to pursue an active vs. passive portfolio management philosophy. Active management means that the financial markets will be monitored by investment officials and investments will be purchased and sold based on the city's parameters for liquidity and based on market conditions. All marketable securities purchased by the City shall have active secondary markets, unless a specific cash outflow is being matched with an investment that will be held to maturity to meet that obligation. Securities may be purchased as a new issue or in the secondary markets. Securities may be sold before they mature if market conditions present an opportunity for the city to benefit from the trade or if changes in the market warrant the sale of securities to avoid future losses. Securities may be purchased with the intent from the beginning to sell them prior to maturity or with the expectation that the security would likely be called prior to maturity under the analyzed market scenario. Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect the City from credit and market risk in order to meet liquidity requirements.

The portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value between asset groups shall be analyzed and pursued as part of the active investment program within the restrictions set forth by this policy. The portfolio may be comprised of 100% direct government obligations or 100% repurchase agreements. Other asset types shall be limited to no more than 20% of each portfolio. In addition commercial paper and bankers' acceptances shall be limited to no more than 5% of each portfolio held in any individual issuer name in order to limit credit risk.

Specific strategies for each type of fund group of the city are as follows.

B. Operating Funds: Operating funds shall have their primary objective to assure that anticipated cash outflows are matched with the adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during changing economic cycles. These objectives may be accomplished by purchasing high quality, short to medium term securities in a laddered (maturities coming due regularly and staggered to match

cash outflows) or barbell (maturities that are placed very short term and maturities that are longer term, such that the average achieves cash flows and income similar to buying in the middle of those maturity spectrums) maturity structure and by diversification among market sectors.

The dollar-weighted average maturity of the operating funds, based on the stated final maturity date of each security, will be calculated and limited to one year or less. However, each of the City's operating funds has a component classified as fund balance or reserve monies. The City generally tries to maintain 60 days working capital, or in the case of self-insured funds, an actuarial determined amount of reserves is set aside. Reserves for insurance may have a dollar weighted average of two years or less.

C. Capital Project Funds and Special Purpose Funds: Capital project funds and special purpose funds shall have as their primary objective to assure that anticipated cash outflows are matched with adequate investment liquidity. These portfolios should have liquid securities to allow for unanticipated project expenditures or accelerated project outlays due to a better than expected or changed construction schedule. The portfolios shall be invested based on cash flow estimates to be supplied by the capital projects managers and the capital project report completed by the accounting division. The dollar-weighted average life of the portfolio should be matched to that of the duration of the liabilities. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations. The City will manage these funds as previously described, but will conduct an arbitrage rebate calculation annually to determine the income, if any, that has exceeded the arbitrage yield of the bond. This positive arbitrage income will be averaged over a five-year period and rebated to the federal government according to arbitrage regulations. A secondary objective of these funds is to achieve a yield equal or greater than the arbitrage yield of the applicable bond.

D. Debt Service Funds: Debt service 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.

E. Debt Service Reserve Funds: Debt service reserve funds shall have the primary objective to generate a dependable revenue stream of the appropriate debt service fund within the limits set forth by the bond ordinance or debt covenants specific to each individual bond issue. Individual securities may be invested to the stated final maturity of ten years or less and no more than a four year dollar-weighted average life.

IX. Finance Committee

A. Members: A finance committee consisting of three members of the City Council appointed by the City Council shall review the City's investment strategies and monitor the results of the investment program at least quarterly. The City Council shall adopt annually a written instrument by resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to the investment policy or investment strategies. Primary staff liaisons with the Finance Committee for investment deliberations shall be the City Manager, Chief Financial Officer, City Treasurer, and Budget Management Analyst-Treasury. The Finance Committee will be authorized to invite other advisors to the meetings as needed.

B. Scope: The Finance Committee shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification, maturity structure, potential risk to the City's funds, authorized broker/dealers, rate of return on the investment portfolio, and compliance with the investment policy. The Finance Committee will also advise the City Council of any future amendments to the investment policy that are deemed necessary or recommended.

C. Procedures: This investment policy shall require the Finance Committee to provide for minutes of any meetings held that are specifically to discuss investment information. Any member of the Finance Committee may request a special meeting, and two members will constitute a quorum. The Finance Committee will establish its own rules of procedures.

X. Reporting

A. Methods: The City Treasurer and other investment officials, under the direction of the Chief Financial Officer, shall prepare and submit an investment report at least quarterly, including a management summary that provides an analysis 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 should be provided to the City Council, the City Manager, and the Finance Committee. The reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to Council by the auditor. The City Council shall adopt a written instrument stating it has reviewed the annual investment report, the investment strategies and the investment policy. The report must contain the following:

1) Investment position of the City on the date of the report;
2) Prepared jointly by all investment officers of the City;
3) A signature of each investment official of the City;
4) A summary statement prepared in compliance with generally accepted accounting principles of each pooled fund or individual portfolio, sorted by type of asset, that states the fully accrued income for the reporting period; beginning market value for the reporting period; additions and changes to the market during the period; ending market value for the period; and the resulting change in market value that may have occurred and a comparison of the same to the previous quarter;
5) A comparison of book value vs. market value and the unrealized gain or loss at the end of the period and the comparison to the previous period by asset type and fund type invested;
6) State the duration or average maturity of each portfolio;
7) State the accounting fund or pooled group fund for which individual investments were acquired, by name or number or both;
8) State the compliance of the investment portfolio as it relates to the strategy expressed in the City's investment policy and compliance with the laws governing the City's investments;
9) Disclose the investment income earned by accounting fund;
10) Demonstrate the diversification of the City's investments;
11) Provide a summary of economic activity and recent financial market conditions; and
12) Provide a listing of broker/dealers and financial institutions with whom the City Council has approved the investment officers to conduct business on behalf of the City.

The fourth quarter investment report shall be named "The Investment Officer's Fourth Quarter and Annual Report" and will include the elements listed previously plus the following additional information:

13) Quarterly comparisons of diversification between asset types;
14) Comparisons of asset types by maturity and duration;
15) A description of the current banking and custodian safekeeping arrangements of the City; and
16) A comparison of the income earned by the City in an active investment program to what could have been earned during the same annual period by investing passively in treasury bills, treasury notes and governmental pools.

The City Treasurer is responsible for the recording of the investment transactions and the maintenance of the investment records with reconciliation of the accounting records of investments carried out by an individual reporting to the accounting manager. Information to

maintain the investment program and the reporting requirements is derived from various sources such as broker/dealer research reports, newspapers, financial on-line market quotes, direct communication with broker/dealers, market pricing services, investment software for maintenance of portfolio records and financial consulting services for performance of arbitrage calculations.

B. Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of treasury benchmarks whose final maturity most closely matches the WAM of the portfolio shall be established against which portfolio performance shall be compared on a regular basis.

C. Marking to Market: The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

XI. Investment Policy Considerations

Amendments: This policy shall be reviewed on an annual basis. Any changes must be approved by the Investment Officials, Finance Committee and City Council, as well as the individual(s) charged with maintaining internal controls. A written instrument should be adopted by the City Council, not less than annually, stating the City Council has reviewed and authorized the investment strategies and the amendments, to this Investment Policy.

APPENDIX A

AUTHORIZED BROKER/DEALERS, FINANCIAL INSTITUTIONS, AND GOVERNMENT POOLS

BROKER/DEALERS AND FINANCIAL INSTITUTIONS AUTHORIZED TO DO BUSINESS WITH THE CITY OF CARROLLTON

Frost Bank
FTN Financial Capital Markets
Hilltop Securities, Inc.
Incapital, LLC
Oppenheimer & Co. Inc.
Raymond James & Associates, Inc.
RBC Capital Markets, LLC
Vining Sparks, IBG
Wells Fargo Securities, LLC

GOVERNMENT POOLS AUTHORIZED BY CITY COUNCIL RESOLUTION

(LOGIC) Local Government Investment Cooperative
(TEXPOOL) Texas Local Government Investment Pool
(TEXASTERM) TexasTERM Local Government Investment Pool
(TEXASCLASS) Texas Cooperative Liquid Assets Securities System Trust

APPROVED PROVIDERS OF PFIA TRAINING

University of North Texas
Government Finance Officers Association
Government Finance Officers Association of Texas
Government Treasurers' Organization of Texas
Association of Public Treasurers of the United States and Canada
Texas Municipal League

RESOLUTION NO. 004353

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARROLLTON, TEXAS, ADOPTING THE INVESTMENT POLICY AND INVESTMENT STRATEGIES AND APPROVING SAID POLICY AS FULFILLMENT OF CHAPTERS 2256.005 AND 2256.025, GOVERNMENT CODE, THE PUBLIC FUNDS INVESTMENT ACT; AND PROVIDING AN EFFECTIVE DATE.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF CARROLLTON, TEXAS, THAT:

SECTION 1

The City of Carrollton hereby adopts the investment policy and investment strategies, as fulfillment of Chapter 2256, Government Code, Public Funds Investment Act.

SECTION 2

The City Manager is hereby authorized to take those steps reasonable and necessary to comply with the intent of this Resolution.

SECTION 3

This Resolution shall become effective immediately from and after its passage.

DULY PASSED AND APPROVED by the City Council of the City of Carrollton, Texas this 17th day of December, 2019.

Kevin Falconer, Mayor

ATTEST:

Laurie Garber, City Secretary

CITY OF CARROLLTON
CARROLLTON, TEXAS

APPROVED AS TO FORM:

Meredith A. Ladd, City Attorney

APPROVED AS TO CONTENT:

Robert B. Scott, CFO/ACM