City of Conroe
Investment Policy
2024

CITY OF CONROE

Approved by Council

May 23, 2024

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I. Policy

It is the policy of the City of Conroe (herein after referred to as "City") that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to the City. The City's investment portfolio shall be designed and managed in a manner to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- <u>Safety</u> and preservation of principal
- Maintenance of sufficient <u>liquidity</u> to meet operating needs
- <u>Public trust</u> from prudent investment activities
- Optimization of <u>interest earnings</u> on the portfolio

II. Purpose

The purpose of this Investment Policy is to comply with Chapter 2256 of the Government Code ("Public Funds Investment Act"), which requires each local government to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City's funds.

III. Scope

This Investment Policy shall govern the investment of all financial assets of the City. These funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

- General Fund
- Enterprise Funds
- Internal Service Funds
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Other funds established from time to time

Except for cash in certain restricted and special funds, the City may consolidate cash and investment balances to ease cash management operations and 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.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the 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 or other post-employment benefits (OPEB) trust funds.

IV. Investment Objectives

The City shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and local law.

The City shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

1. Safety

Safety of principal is the foremost objective of the investment program. Investment for speculation is prohibited. No individual or group of transactions shall be undertaken that would jeopardize the total capital sum of the overall portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

A. Credit Risk – The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

   1. Limiting investments to the safest types of investments.

   2. Pre-qualifying the financial institutions and brokers/dealers with which the City will do business.

   3. Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

B. Interest Rate Risk – the City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

   1. Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
   2. Investing operating funds primarily in shorter-term securities, money market mutual funds, local government investment pools functioning as money market mutual funds, or certificates of deposit.

3. Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands (static liquidity). Because 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 that offer same-day liquidity.

3. Public Trust

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.

4. Yield (Optimization of Interest Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return 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.

V. Responsibility and Control

1. Delegation of Authority

Authority to manage and operate the investment program is granted to the Assistant City Administrator/Director of Finance. The Assistant City Administrator/Director of Finance shall establish written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include, but not be limited to, references to: account management procedures, cash flow estimation procedures, investment transaction procedures, authorized dealer selection process, and investment portfolio reporting requirements.
No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Assistant City Administrator/Director of Finance. The Assistant City Administrator/Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Authorized Investment Officers.

The Authorized Investment Officers include:

A. Assistant City Administrator/Director of Finance

B. Assistant Director of Finance

C. Finance Manager

D. Financial Analyst

2. Quality and Capability of Investment Management

The City shall provide periodic training in investments for the designated Investment Officers through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

3. Training Requirement

In accordance with the Public Funds Investment Act, designated Investment Officers shall attend an investment training session no less often than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date and shall receive not less than 8 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the Officer took office or assumed the Officer's duties.

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.

Sources approved to provide training to the City's Investment Officers include:

A. Government Finance Officers Association (GFOA)

B. Government Finance Officers Association of Texas (GFOAT)

C. Government Treasurers' Organization of Texas (GTOT)

D. University of North Texas Center for Public Management

E. Texas Municipal League (TML)

F. Training & Development Institute of North Central Texas Council of Governments

4. Internal Controls

The Assistant City Administrator/Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 Assistant City Administrator/Director of Finance shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The independent review, in conjunction with the City's annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's established investment policies. The internal management controls shall address the following points.

A. Control of collusion.

B. Separation of transactions 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.

H. Documentation of transactions and strategies.

5. Prudence

The standard of prudence to be applied by the Investment Officers shall be the "prudent investor" rule, which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

A. The investment of all funds, or funds under the City's control, over which the Officer had responsibility, rather than a consideration as to the prudence of a single investment.

B. Whether the investment decision was consistent with the written approved Investment Policy of the City.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Investment Officers shall disclose any material interests in financial institutions with which they conduct investment business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and Officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

VI. Suitable and Authorized Investments

1. Portfolio Management

The City will implement a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. Securities shall not be sold prior to maturity with the following exceptions:

A. A security with declining credit may be sold early to minimize loss of principal.

B. A security swap would improve the quality, yield, or target duration in the portfolio.

C. Liquidity needs of the portfolio require that the security be sold.

2. Investments

City funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of City funds in any instrument or security not authorized for investment is prohibited. The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

A. **Authorized**

1. Obligations of the United States of America, its agencies and instrumentalities.

2. Certificates of Deposit issued by a bank or broker approved by the City Council and organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch

office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the City.

3. Fully collateralized direct repurchase agreements with a defined termination date secured by a combination of cash and obligations of the United States, its agencies or instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. The following provisions shall apply to repurchase agreements:

   A. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

   B. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.

   C. The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

   D. All securities purchased under such repurchase agreement shall be held by a custodial (safekeeping) agent as approved by the City. All repurchase agreement transactions will be on a delivery vs. payment basis.

   E. The seller of repurchase agreement securities shall be entitled to substitute securities upon authorization by the City

4. No-Load Money Market Mutual funds that are:

   A. Registered and regulated by the Securities and Exchange Commission,

   B. Provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940,

   C. Complies with federal SEC Rule 2a-7,

   D. Continuously rated AAA by at least one nationally recognized rating service, and

   F. Mark its portfolio to market daily.

5. Local government investment pools, which:

   A. Meet the requirements of Chapter 2256.016 of the Public Funds Investment Act,

   B. Are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service,

   C. Seek to maintain a $1.00 net asset value, and

D. Are authorized by resolution or ordinance by the City Council.

6. Obligations of the State of Texas or its agencies and instrumentalities.

7. Obligations of States, Agencies, Counties, Cities, and other political subdivisions of any State rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

8. Commercial Paper that has a stated final maturity of 365 days or fewer from the date of its issuance and is rated A-1, P-1, or equivalent rating by at least two nationally recognized credit rating agencies.

9. Collateralized mortgage obligations 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.

10. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States.

The City will monitor rating changes in investments acquired with public funds. Ratings will be monitored through websites such as Moody's, Standard & Poor's (S&P), and Electronic Municipal Market Access (EMMA). Ratings for active investments will be listed in the investment reports presented and approved by the City Council quarterly. All prudent measures consistent with PFIA shall be taken to liquidate an investment that no longer has the minimum rating required by PFIA.

VII. Investment Parameters

1. Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates. The City attempts to match its investments with anticipated cash flow requirements. Maturities will be staggered up to 60 months to provide adequate cash flow, however, provided that not more than 10% of the portfolio shall have a maturity beyond 36 months. The maximum dollar-weighted average maturity for the entire portfolio shall be limited to 365 days.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

2. Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

A. Limiting investments to avoid overconcentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law),

B. Limiting investment in securities that have higher credit risks (example: commercial paper),

C. Investing in investments with varying maturities, and

D. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Specific Limits in the portfolio to ensure diversity are:

A. At least 5% of the portfolio will be invested in direct obligations of the United States.

B. With the exception of direct obligations of the United States, securities from one issuer may not make up more than 25% of the total portfolio.

C. Not less than 10% of the portfolio will be maintained in Money Market Funds, Investment Pools, or similar vehicles with high liquidity.

D. Collateralized mortgage obligations shall not make up more than 10% of the total portfolio.

VIII. Selection of Banks and Dealers

1. Depository

A Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid, and evaluation of bids will be based on certain selection criteria.

2. Authorized Brokers/Dealers

The City will transact its government securities business with local banks, primary dealers that report to the New York Federal Reserve Bank, and other broker/dealers that maintain liquid capital in excess of their market and credit risk by 20% (1.2:1 capital to risk standard).

All investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification verifying that the organization has received and thoroughly reviewed the City's Investment Policy.

Local government investment pools and investment management firms shall also execute a written instrument that certifies that they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

The City shall, at least annually, review and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with the City. The approved list can be seen in Exhibit A attached to this policy.

3. Competitive Bids

The City authorizes the designated Investment Officers to solicit offerings for investments. Generally, the City will seek at least three competitive offerings before it invests surplus funds. The City will accept the offerings which provide the highest rate of return within the maturity required and within the guidelines of this Policy.

The City recognizes that a competitive offering process is not always necessary or is not always in the best interest of the City. On these occasions, the Investment Officers are authorized to purchase a security without seeking competitive offerings. Examples of these occasions are:

A. Market conditions are changing rapidly.

B. The security is a "new issue" that is still in the primary market.

C. A specific type of security, maturity date, or rate of return is sought that may not be immediately available.

4. Delivery vs. Payment

Securities shall be purchased using the delivery vs. payment method with the exception of public funds investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

IX. Safekeeping of Securities and Collateral

1. Safekeeping and Custodian Agreements

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the City shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the City and pledged to the City as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by a Federal Reserve Bank or branch of a Federal Reserve Bank, a State or National back domiciled within Texas, which has a capital stock and permanent surplus of not less than $5 million, a Federal Home Loan Bank, or a third party bank approved by the City.

2. Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all uninsured City funds (plus accrued interest, if any) on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be not less than 110% of the amount of uninsured deposits. Determination of the market value of the collateral will be calculated monthly or more frequently upon request by the City.

At its discretion, the City may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with which the City has a current custodial agreement. The Assistant City Administrator/Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this policy.

The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

3. Collateral Defined

The City shall accept only the following types of collateral, as restricted by law:

A. Obligations, including Letters of Credit, of the United States or its agencies and instrumentalities.

B. Direct obligations of the State of Texas or Texas State agencies and instrumentalities.

C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States of America, the underlying security for which is guaranteed by an agency or instrumentality of the United States of America.

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

E. Fixed-rate collateralized mortgage obligations that have an expected weighted average life of 10 years or less and which do not constitute a high-risk mortgage security as defined in the Public Funds Law.

F. Floating-rate collateralized mortgage obligations that do not constitute a high-risk mortgage security as defined in the Public Funds Law.

4. Subject to Audit

All collateral shall be subject to inspection and audit by the Assistant City Administrator/Director of Finance or the City's independent auditors.

X. Performance Standards

The City's investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

XI. Reporting

1. Methods

The Assistant Director of Finance shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities and maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity. This 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 provided to the City Council. The report will include the following:

A. A listing of individual securities held at the end of the reporting period.

B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.

C. Average weighted yield to maturity of portfolio.

D. Listing of investments by maturity date.

E. Fully accrued interest for the reporting period.

F. The percentage of the total portfolio that each type of investment represents.

G. Beginning and ending market value for the period.

H. The book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested.

I. Statement of compliance with the Public Funds Investment Act and this policy.

J. Signatures of all Investment Officers.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

2. Monitoring Market Value

The market value of the portfolio shall be calculated at least quarterly, and a statement of the market value of the portfolio shall be issued at least quarterly. The source of pricing used to calculate the market value will be the values published in the financial section of the Wall Street Journal and, as necessary, a third party agency with access to pricing for securities that are not listed in the Wall Street Journal.

XII. Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution of the City Council. It is the City's intent to comply with State laws and regulations. The City's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the City. The City Council shall review the City's Investment Policy annually. The City Council shall review and approve the policy and investment strategies annually, approving any changes or modifications.

XIII. Investment Strategies

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

A. General, Enterprise, or Operating-Type Funds

1. **Suitability** – Any investment eligible in the Investment Policy is suitable for General, Enterprise, or Operating-type Funds.

2. **Safety of Principal** – All investments shall be of high quality short to medium-term securities, with no perceived default risk, which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity dates of each security.

3. **Liquidity** – General, Enterprise, or Operating-type Funds require the greatest short-term liquidity of any of the fund-types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

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

5. **Diversification** – Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure up to the three-year maximum will reduce interest rate risk.

6. **Yield** – Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective.

B. Special Projects or Special Purpose Funds

1. **Suitability** – Any investment eligible in the Investment Policy is suitable for Special Projects or Special Purpose Funds.

2. **Safety of Principal** – All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Special Projects and Special Purpose Funds to balance the short-term and long-term anticipated cash flow requirements of the specific revenue/expense plan will minimize the market risk of the Funds' portfolio.

3. **Liquidity** – Investment strategies for Special Projects and Special Purpose Funds portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The portfolio should include at least 10% in highly liquid securities to allow for flexibility an unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

4. **Marketability** – Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads"

between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

5. **Diversification** – Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity and yield enhancement and stability.

6. **Yield** – Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective.

C. Interest and Sinking (Debt Service) Funds

1. **Suitability** – Any investment eligible in the Investment Policy is suitable for Interest and Sinking Funds.

2. **Safety of Principal** – All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Interest and Sinking Funds to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.

3. **Liquidity** – Investment strategies for Debt Service Funds 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 final scheduled debt service payment date.

4. **Marketability** – Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

5. **Diversification** – Market conditions influence the attractiveness of fully extending maturity to the next payment date. Generally, if investment rates are anticipated to decrease over time, the City is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide advantage. 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.

D. Debt Service Reserve Funds

1. **Suitability** – Any investment eligible in the Investment Policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

2. **Safety of Principal** – All investments shall be of high quality, short to intermediate-term securities with no perceived default risk. Market price fluctuations will occur. Volatility

shall further be controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium if at all possible. Such securities would tend to hold their value during economic cycles. Securities purchased shall not have a stated final maturity date which exceeds the final scheduled debt service payment date of the appropriate debt issue.

3. **Liquidity** – Debt Service Reserve Funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to the City's debt 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 cost of borrowing, the City is best served by locking in most investment maturities and reducing liquidity. If the borrowing costs cannot be exceeded, then market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

4. **Marketability** – Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

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** – Investment strategies for Debt Service Reserve Funds shall have the primary objective the ability to generate a dependable revenue stream in the appropriate debt service fund from securities with a low degree of volatility.

Exhibit A – Approved Broker/Dealers

The following is the current list of approved brokers/dealers who are qualified to engage in securities transactions with the City:

A. FHN Financial, Buddy Saragusa, (713) 435-4475

B. Hilltop Securities, Gil Ramon, (713) 654-8606

C. Wells-Fargo Securities, Chuck Landry, (800) 937-0998