

**INVESTMENT POLICY**  
**FOR**  
**CITY OF DESOTO, TEXAS**  
**DESOTO HOUSING FINANCE CORPORATION**  
**DESOTO INDUSTRIAL DEVELOPMENT CORPORATION**  
**DESOTO HEALTH FACILITIES CORPORATION**  
**DESOTO PARKS DEVELOPMENT CORPORATION**

Adopted November 2023

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## PREFACE

Throughout this Investment Policy, the City of DeSoto, Texas, DeSoto Housing Finance Corporation, DeSoto Industrial Development Corporation, DeSoto Health Facilities Corporation, and DeSoto Parks Development Corporation shall be singularly referred to as “ENTITY” and collectively referred to as “CITY.”

State and local public laws govern the investment process for the CITY’s funds. Laws cannot ensure that public officials manage public funds in a disciplined and prudent manner. The actions of public officials responsible for investing public funds must be guided by knowledge, skills, systems, policies, procedures, and confidence that can be described only as professional discipline.

It is the policy of the CITY that giving due regard to safety and risk of investments, all available funds shall be invested in conformance with these legal and administrative guidelines. All CITY funds shall be invested, to the maximum extent possible, at the risk-appropriate rates obtainable at the time of the investment. Deposits secured with irrevocable letters of credit shall have 100% of principal plus anticipated interest of the deposit, less any amount insured by the FDIC.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued. To that end, investment interest will be used as a viable and material revenue source for all operating and capital funds. Earnings from investments will be used in a manner that will best serve the interest of the CITY.

The CITY's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

## **I. INTRODUCTION AND OBJECTIVES**

The Investment Policy of the CITY shall be to have all available funds invested, to the maximum extent possible, at the optimum rates obtainable at the time of investment. This is in conformance with the legal and administrative guidelines outlined herein. The investments shall be consistent with state and local laws and shall be made in accord with the following hierarchy of objectives:

- Preservation of capital, safety of principal and security of investments,
- Maintenance of sufficient liquidity to meet operating needs,
- Diversification of investments to avoid unreasonable or avoidable risks,
- Assurance of public trust, and
- Optimization of return on the portfolio.

Cash management is the process of managing moneys in order to ensure maximum cash availability and optimum yield on short-term investments of idle cash. An aggressive cash management program consistent with this Investment Policy will be pursued by the CITY to take advantage of investment interest as viable and material revenue for all operating and capital funds. The CITY's portfolio shall be designed and managed in a manner responsive to the public trust. Earnings from investments will be used in a manner that will best serve the interests of the CITY.

The CITY is required by the Public Funds Investment Act to adopt a formal written investment policy. This Investment Policy, as amended, sets forth the investment objectives of the CITY.

## **II. DEFINITIONS**

The following definition of terms shall apply in interpreting and implementing this Investment Policy:

1. "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by the CITY, and reserves and funds maintained by the CITY for debt service purposes.
2. "Debt service funds" means those funds which by ordinance or law must be accumulated and are restricted to the payment of debt.
3. "Reserve funds" means those funds which by ordinance or law must be accumulated and are restricted to the payment of debt in the event debt service funds are insufficient to meet debt service obligations.
4. "Book value" means the original acquisition cost of an investment plus or minus

the accretion or amortization.

5. "Funds" means public funds in the custody of the CITY that the CITY has the authority to invest.
6. "Investment pool" means an entity created under Public Funds Investment Act to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:
  - a) Preservation and safety of principal;
  - b) Liquidity; and
  - c) Yield.
7. "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source on the valuation date.
8. "Pooled fund group" means an internally created fund of the CITY in which one or more institutional accounts (accounting funds) are invested.
9. "Separately invested asset" means an account or fund (accounting fund) of the CITY that is not invested in a pooled fund group.

### **III. DELEGATION AND RESTRICTION OF INVESTMENT AUTHORITY**

This Investment Policy, and the outlining of investment practices and authorities, is compiled in accordance with the Public Funds Investment Act, which requires the adoption of rules governing investment of funds and the designation of an investment officer.

The Managing Director of Financial Services for the City of DeSoto is designated as the senior Investment Officer, and the Assistant Director of Finance for the City of DeSoto is designated as the junior Investment Officer. Responsibility and authority for daily investment transactions and cash management reside with the Managing Director of Financial Services. The Managing Director of Financial Services is also responsible for considering the quality and capability of staff involved in investment management and procedures. The Managing Director of Financial Services will ensure that staff involved in the investment function complies with all training requirements established by the Public Funds Investment Act through independent training sources approved by the Investment Committee.

The Investment Officers shall attend training of at least ten (10) hours relating to the Officer's responsibility under the Public Funds Investment Act within twelve (12) months after assuming duties and attend additional investment training accumulating at least eight (8) hours in subsequent two-year periods that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolios, and compliance with the Public Funds Investment Act.

All participants in the investment process shall seek to act responsibly as custodians of public trust.

The Managing Director of Financial Services 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 Managing Director of Financial Services shall establish a process for annual independent review by an external auditor in conjunction with the annual audit, to assure compliance with policies and procedures. The internal controls shall address the following points:

- Prevention of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.

#### **IV. INVESTMENT COMMITTEE**

There shall be established an Investment Committee to determine general strategies and to monitor results of the CITY's portfolio. Members of this Committee include the Managing Director of Financial Services (as chairperson), the City Manager, the Deputy City Manager(s), and the Assistant Director of Finance. Additional members may be appointed by the Committee as appropriate. The Committee shall meet each quarter and at such times as necessary to identify strategies for funds to be invested. The Investment Committee shall include in its deliberation such topics as: economic outlook, portfolio diversification, maturity structure, potential investment risks, authorized brokers/dealers, eligible investment training sources, and the anticipated rate of return on the investment portfolio.

#### **V. ACCEPTABLE INVESTMENT INSTRUMENTS**

All investments of the CITY shall be made in accordance with the Public Funds Investment Act. Any revisions or extensions of this Chapter will be assumed to be part of this Investment Policy immediately upon being enacted.

The CITY has further restricted the investment of funds to the following types of investments and transactions:

1. U.S. Treasury Obligations: e.g., Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury STRIPS.
2. Federal Agency Securities: e.g., Debentures and mortgage-backed securities issued by the Government National Mortgage Association (GNMA).
3. Federal Instrumentality Securities: e.g., Debentures, discount notes, callable securities, and step-up securities issued only by the following: Federal Agricultural Mortgage Corporation (FAMCA), Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC).
4. Obligations of states, agencies, counties, cities, districts, 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 not less than "A" or its equivalent.
5. Financial Institution Deposits issued by state or national banks in compliance with the Public Funds Investment Act that are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in compliance with the Public Funds Collateral Act and this Policy.
6. Repurchase Agreements with a defined termination date, fully collateralized by cash, U.S. Treasury Obligations, Federal Agency Securities and Federal Instrumentality Securities. For the purpose of this section, the term "collateral" shall mean purchased securities under the terms of the CITY's approved Repurchase Agreement, or similar agreement, and held in the CITY's custodian bank. Repurchase Agreements shall be structured in compliance with the Public Funds Investment Act.
7. Money Market Mutual Funds: registered under the Investment Company Act of 1940 which are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share objective of \$1.0000; limit assets of the fund to U.S. Treasury Obligations, Federal Agency Securities and Federal Instrumentality Securities, or repurchase agreements backed by the above, or money market mutual funds investing in the above; have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7; and have a rating of not less than AAAM by Standard and Poor's, Aaa/P1+ by Moody's or AAA/V1+ by Fitch.
8. Local Government Investment Pools: authorized under the Public Funds Investment Act which are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share objective of \$1.00; have a maximum stated maturity and weighted average

maturity in accordance with the pool's investment policy; and have a rating of not less than AAAM by Standard and Poor's, Aaa/P1+ by Moody's or AAA/V1+ by Fitch. Furthermore, authorized Local Government Investment Pools must comply with the disclosure and reporting requirements set forth in the Public Funds Investment Act.

The Investment Officers will, in general, purchase investments with the intent to own the investment until maturity. Safety of principal with due consideration of liquidity is the foremost objective of this Investment Policy. Each investment transaction shall seek to avoid capital losses from issuer defaults or erosion of market value.

Investments purchased prior to this Policy's revision that do not meet the revised requirements of this Policy are not required to be liquidated. The Investment Committee shall monitor each investment's status to determine whether it is in the best interest of the CITY to hold or liquidate the investment.

Any Authorized Investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. The CITY shall monitor the rating of each issuer, as applicable, at least quarterly, and take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

The CITY will practice competitive bidding orally, by telephone, electronically, or in any combination of these methods when purchasing an investment to help strengthen the investment process. The CITY reserves the right to reject the most financially favorable bid if it is potentially disruptive to its investment strategy.

When appropriate, actual risk of default shall be minimized by adequate collateralization. Market risk shall be minimized by diversification. Diversification shall be directed towards investment instruments, varying maturities, and multiple investment pools and investment providers (where appropriate).

## **VI. UNACCEPTABLE INVESTMENT INSTRUMENTS**

The following investments, although authorized by the Public Funds Investment Act, are not eligible for direct investments for the CITY:

- Collateralized mortgage obligations
- Commercial paper
- Banker's acceptances
- Reverse repurchase agreements



- No-load mutual funds other than no-load money market mutual funds
- Share certificates of qualifying credit unions

**VII. DIVERSIFICATION**

Market risk shall be minimized by diversification of investment types. The following limits by instrument are established for the CITY's total portfolio and will be implemented after adoption of this Investment Policy.

1. U.S. Treasury Notes/Bonds/Bills/Strips ..... 100%
2. U.S. Agencies/Instrumentalities..... 100%
3. Obligations of states, agencies, counties, cities, districts, and other political subdivision..... 50%
4. Financial Institution Deposits ..... 100%
5. Repurchase Agreements (excluding bond funds) ..... 50%
6. Money Market Mutual Funds ..... Public Fund Investment Act Limits
7. Local Government Investment Pools..... 100%

**VIII. INVESTMENT STRATEGIES**

The CITY maintains the following portfolios which will utilize the specific investment strategy considerations designed to address the unique characteristics of the pooled fund groups or separately invested assets represented in the portfolios:

**1. Debt Service Funds**

The CITY will maintain debt service funds as required by ordinance or law. These funds may be operated as separately invested assets, or, subject to controlling ordinances, may be commingled with the Consolidated Cash Fund (described below). Investment strategies for 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. Fixed maturity investments shall not have a stated final maturity date which exceeds the corresponding debt service payment date.

**2. Special Project or Special Purpose Funds**

Special project or special purpose funds may be maintained as separately invested

assets or, subject to controlling ordinances, be commingled in the Consolidated Cash Fund (described below). By specific reference, the Water and Sewer operating funds are special purpose funds. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of investments held should not exceed the estimated project completion date. Funds in excess of defined construction payments' schedules shall be limited to a weighted average maturity of three years and a maximum final maturity of five years.

### **3. Consolidated Cash Fund**

The Consolidated Cash Fund shall operate as a pooled fund group and include all CITY funds not designated as another Fund. The investment strategies for the Consolidated Cash Fund have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. This may be accomplished by purchasing investments 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 investment. The maximum maturity date using the stated final maturity date for an individual investment is the lesser of three years or the maximum allowable under the Public Funds Investment Act.

## **IX. SAFEKEEPING and CUSTODY**

The CITY shall select one or more financial institutions to provide safekeeping and/or custodial services for the CITY. A CITY approved agreement shall be executed with each safekeeping/custodian bank prior to utilizing that bank's services. For pledged collateral, to be eligible for designation as the CITY's custodian bank, a bank shall qualify under the Public Funds Collateral Act.

The purchase and sale of securities shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in an account in the name of the CITY, and sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

The CITY's safekeeping agent or custodian will be required to furnish the CITY monthly reports of holdings and activity.

## **X. COLLATERALIZATION**

Consistent with the requirements of State law, the CITY requires all financial institution deposits to be federally insured or collateralized. Financial institutions serving as CITY depositories will be required to sign a depository or collateral agreement with the CITY. The custodial portion of the agreement shall define the CITY's rights to the collateral in

case of default, bankruptcy, or closing, and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the agreement must be in writing;
- the agreement has to be executed by the depository and the CITY contemporaneously with the acquisition of the asset;
- the agreement must be approved by the board of directors or the loan committee of the depository and a copy of the meeting minutes must be delivered to the CITY, specifically to the Managing Director of Financial Services; and
- the agreement must be part of the depository's "official record" continuously since its execution.

The CITY considers repurchase agreements as simultaneous sales and purchases of securities rather than collateralized loans. However, securities underlying repurchase agreements are referred to as "collateral" for the purpose of this Investment Policy.

Financial Institution deposits (plus accrued interest) do not need to be collateralized pursuant to this Investment Policy as long as FDIC insurance provides full deposit coverage.

Acceptable forms of collateral are limited to those authorized in the Public Funds Collateral Act.

Collateral is valued at current market value plus interest accrued through the date of the valuation. Financial Institution deposits and repurchase agreement (par value plus accrued interest) collateral must be maintained at the following levels:

	<u>U.S. Treasury Securities</u>	<u>Other Securities</u>
1 Year or Less	101%	101%
1 Year to 5 Years	102%	102%
Over 5 Years	103%	103%

Any collateral other than U.S. Treasury Securities which has with a maturity of over five years must be approved by the Managing Director of Financial Services in writing before the transaction is initiated. The CITY reserves the right to accept or reject any proposed collateral and to increase the minimum required collateral level.

Deposits secured with irrevocable letters of credit shall have 100% of principal plus anticipated interest of the deposit, less any amount insured by the FDIC.

Collateralized investments often require substitution of collateral. The substitution is allowed without advanced approval as long as the substituted collateral's value is equal to or greater than the original collateralization level.

Substitution is allowed for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. At the City's discretion, the Managing Director of Financial Services may limit or reject substitutions, and/or assess appropriate fees if substitution becomes excessive or abusive.

Collateral shall be audited at least annually by the CITY's independent audit firm, and may be audited by the CITY at any time during normal business hours.

The financial institutions with whom the CITY invests and/or maintains other deposits shall provide, as requested by the CITY, a listing of the CITY's certificates of deposit and other deposits at the institution and a listing of collateral pledged to the CITY marked to current market prices. The listing shall include total pledged securities with the following:

Name  
Type/Description  
CUSIP  
Par Value  
Current Principal or Face Value  
Current Market Value  
Maturity Date  
Moody's or Standard & Poor's Rating (both if available)

## **XI. INVESTMENT REPORTING**

Each quarter, the Investment Officers shall prepare and submit to the City Council and Boards of Directors a written report of all investment transactions. The report will include the following information:

- A detailed description of the investment position of the CITY at the end of the quarter;
- A summary statement of each pooled fund group that states beginning market value for the quarter, ending market value for the period and fully accrued interest for the period;
- The book value and market value of each separately invested asset at the end of the quarter by the type of asset and fund type invested;
- The maturity date of each separately invested asset that has a maturity date;
- The fund or pooled group fund for which each individual asset was acquired;
- Compliance with the investment strategy established in this Investment Policy and by the Public Funds Investment Act.

The CITY monitors the market price of its investments by contacting sources independent

of the transaction and utilizing the Wall Street Journal or other market information sources. The report should also include computations of the weighted average yield as the performance measurement standard. This report must be prepared jointly and signed by all Investment Officers.

## **XII. PRUDENCE AND ETHICAL STANDARDS**

The standard of care used by the CITY shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio. The prudent person rule is restated below:

*Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.*

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. 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; and
2. whether the investment decision is consistent with this Investment Policy.

Investment Officers shall notify the City Council and Boards of Directors of any conflicts of interest, as defined in the Public Funds Investment Act, no later than the next regularly scheduled City Council and Boards of Directors meetings, and provide notification to the Texas Ethics Commission, as applicable.

It is the CITY's policy that the Investment Officers perform their duties in accordance with the policies and procedures set forth herein. Investment Officers, acting in good faith and in accordance with these policies and procedures, shall be relieved of personal liability.

## **XIII. ARBITRAGE**

The Tax Reform Act of 1986 regulates the CITY's investing of certain tax-exempt general obligation and revenue bond proceeds, debt service funds and reserve funds. These arbitrage rebate provisions require that the CITY compute earnings on investments from certain issues of bonds on a periodic basis to determine if a rebate is required.

To determine the CITY's arbitrage position, the CITY is required to calculate the actual yield earned on the investment of the funds and compare it to the yield that would have

been earned if the funds had been invested at a rate equal to the yield on the applicable bonds sold by the CITY. The rebate provisions state that periodically (not less than once every five years, and not later than 60 days after maturity of the bonds), the CITY is required to pay the U.S. Treasury a rebate of any excess earnings. These restrictions require extreme precision in the monitoring and recordkeeping of investments, particularly in computing yields to ensure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issuance.

The CITY's investment position relative to the arbitrage restrictions is to continue pursuing the optimum yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue optimization of yield and to rebate excess earnings, if necessary.

#### **XIV. BROKER/DEALERS**

The Investment Committee shall maintain a list of authorized broker/dealers, reviewed and approved at least annually, for investment purposes, and it shall be the policy of the CITY to purchase securities only from those authorized firms.

To be eligible, a firm must meet the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or
2. Report voluntarily to the Federal Reserve Bank of New York, or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule), and
4. Be registered with the Texas State Securities Board, the Financial Industry Regulatory Authority (FINRA) or the Securities and Exchange Commission (SEC), as appropriate.

Broker/dealers will be selected by the CITY on the basis of their expertise in public cash management and their ability to provide service to the CITY's account. The CITY shall seek out and identify broker/dealers that qualify as Historically Underutilized Businesses or Minority and Women Owned Enterprises by the State.

#### **XV. ELIGIBLE BUSINESS ORGANIZATIONS**

All investment providers eligible to transact investment business with the CITY shall be presented a written copy of this Investment Policy. Additionally, the qualified representative of a business organization, as defined by the Public Funds Investment Act (e.g. local government investment pool or discretionary investment management firm), seeking to transact investment business shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed this Investment Policy, and

2. Acknowledged that the organization has 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 Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of CITY's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the CITY that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The CITY shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above.

## **XVI. DEPOSITORIES**

The CITY shall select one or more financial institutions to provide depository and other banking services for the CITY. To be eligible for authorization, a bank shall be a member of the FDIC, shall qualify as a depository of public funds in the State of Texas, and shall report a Community Reinvestment Act (CRA) rating of "Satisfactory" or higher. The financial institutions seeking depository services with the CITY shall qualify under the CITY's Responsible Banking Ordinance.

The CITY will, through a request for applications process, designate one or more banks as its primary depository. This centralization is designed to maximize investment capabilities and minimize banking cost. The depository designation does not limit investment activity to one financial institution.

The evaluation criteria the CITY will use to consummate a banking services contract will include:

- Full-service capabilities
- Submission of financial statements and availability schedules
- Collateralization of the total CITY funds on deposit in the bank
- Statement of staff experience and equal opportunity employment practices
- Cost of banking services

Obtaining competitive applications on the CITY's depository specifications will be the responsibility of the Managing Director of Financial Services. The selection of a primary depository will be determined by competitive process and thorough evaluation that is most advantageous to the CITY (Chapter 105 of the Local Government Code)

State law permits a contract period of five years or less. The contract shall not exceed this

five-year contract period without completing the request for applications process. The Managing Director of Financial Services shall conduct annual performance reviews of the contract. The CITY may contract for special banking needs if approved by the Managing Director of Financial Services.

If a depository does not meet the CITY's requirements in the banking service contract, the bank will be required to meet the requirements within six months or lose the depository contract.

## **XVII. COMPLIANCE AUDITS**

The CITY, in conjunction with its annual financial audit, will require the audit firm to conduct a compliance audit of the management controls on investments and adherence to investment policies, and the quarterly investment reports. The results of the audit shall be reported to the City Council and the Boards of Directors by that auditor.

## **XVIII. ANNUAL REVIEW**

The Managing Director of Financial Services shall, at a minimum, submit proposed amendments of this Investment Policy and incorporated investment strategies to the City Council and Boards of Directors annually. The City Council and Boards of Directors shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed or changed the Investment Policy and incorporated investment strategies.