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RESOLUTION NO. 38-95

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS, ADOPTING A REVISED INVESTMENT POLICY; AND DECLARING AN EFFECTIVE DATE THEREOF.

WHEREAS, the City Council recognizes that effective cash management is essential to good fiscal management; and

WHEREAS, the City Council realizes the need to adopt a revised investment policy for the City of Mesquite;

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

SECTION 1. That the Investment Policy, attached hereto as Exhibit "A", is hereby adopted as the official investment policy of the City of Mesquite.

SECTION 2. That this resolution and the aforementioned investment policy shall take effect immediately from and after its passage as the law in such cases provides.

DULY RESOLVED by the City Council of the City of Mesquite, Texas, on the 4th day of December, 1995.

Cathye Ray
Cathye Ray
Mayor

ATTEST:

Lynn Prugel
Lynn Prugel
City Secretary

APPROVED:

B.J. Smith
B.J. Smith
City Attorney

INVESTMENT STRATEGY STATEMENT

The City of Mesquite maintains an investment portfolio which utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio.

Investment strategies for operating funds 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 which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, liquid, short term securities with a laddered maturity structure. The dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

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. Securities shall be purchased that have a stated final maturity that does not exceed the debt service payment date or funds shall be maintained in an investment pool to be available for debt service payments.

Investment strategies for bond funds and for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue source to the appropriate fund from securities with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality, with short to medium term maturities.

Investment strategies for special purpose funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.

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CITY OF MESQUITE
INVESTMENT POLICY

I. POLICY

It is the policy of the City of Mesquite (City) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investments, all available funds shall be invested in conformance with these legal and administrative guidelines and to the maximum extent possible, at the highest rates obtainable at the time of investment.

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

Investments shall be made with the primary objectives of:

* Safety and preservation of principal
* Maintenance of sufficient liquidity to meet operating needs
* Maximization of return on the portfolio

Earnings from investments will be allocated on a pro-rata cash basis by fund and used in a manner that will best serve the interests of the City of Mesquite.

II. PURPOSE

The purpose of this investment policy is to establish the scope, objectives, and responsibility for the City investment program and to provide policy guidelines for authorized investments, qualifying institutions, safekeeping, collateral, reporting, and investing procedures.

III. SCOPE

This investment policy shall govern the investment of all financial assets considered to be part of the City entity as defined in the **Comprehensive Annual Financial Report** and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and Trust and Agency Funds with the exception of funds governed by Council approved trust agreements and assets administered for the benefit of the City by outside agencies under deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by the bond ordinance and subject to the provisions of the Internal Revenue Code of 1986 and applicable federal regulations governing the investment of bond proceeds.

IV. INVESTMENT OBJECTIVES

The three objectives of the City's investment activities shall be, in order of priority: *safety, liquidity,* and *yield*.

A. SAFETY

Safety of principal invested is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined by this Policy, by qualifying the financial institutions with whom the City will transact, and by portfolio diversification.

B. LIQUIDITY

The investment portfolio should be managed to maintain sufficient liquidity to enable the City to meet all operating requirements which might be reasonably anticipated.

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C. RETURN ON INVESTMENTS

The City's investment portfolio shall be designed to optimize a market average rate of return on investments consistent with risk constraints and cash flow requirements of the portfolio.

V. INVESTMENT RESPONSIBILITY

A. DELEGATION OF AUTHORITY

Article IV, Section 26 of the Mesquite City Charter designates that the City Finance Director shall serve as City Treasurer and perform any duties of City Treasurer as required by the general laws of the State of Texas. The Director of Finance shall delegate the authority to deposit, withdraw, invest, transfer, and manage the City's funds to an Investment Officer. Through the adoption of this policy, the position of Accounting Supervisor will be designated as the Investment Officer for the City of Mesquite. The position of Accounting Manager will serve as Investment Officer in the absence of the Accounting Supervisor. No person may engage in an investment transaction except as provided under the terms of this policy. The Director of Finance shall be responsible for managing the investment program in compliance with this policy, for considering the quality and capability of staff involved in investment management and procedures, and for establishing a system of internal controls designed to prevent and control losses of public funds.

B. INDEMNIFICATION

The investment officials, acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

C. PRUDENCE

The standard or prudence to be applied by the investment officials shall be the "Prudent Person Rule", which states, "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." The investment officer will exercise prudence not only with respect to single investment decisions but with respect to the overall portfolio over which the officer has responsibility. Investment decisions made shall be consistent with the written investment policies of the City.

D. ETHICAL STANDARDS AND CONFLICTS

All City officials having direct or indirect role in the investment of City funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence in the City's managerial ability. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment programs, or which could impair their ability to make impartial investment decisions.

VI. INVESTMENT POLICIES

Safety of principal is the primary objective in investing of public funds and can be accomplished by limiting two types of risk: 1)credit risk, and 2)interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer. Interest rate risk is the risk that the value of the portfolio will decline due to an increase in the general level of interest rates.

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A. AUTHORIZED AND ACCEPTABLE INVESTMENTS

It is the policy of the City to purchase only obligations of the United States government and its agencies and certificates of deposit in financial institutions meeting the City's standards for credit worthiness. The list of authorized investments for the City of Mesquite intentionally excludes some investments authorized by law. These restrictions are placed in order to limit possible credit risk and provide the maximum measure of safety to City funds.

1. United States Treasury Bills - Short-term obligations of the United States government, issued and sold at a discount, with maturities of 13, 26, and 52 weeks.

2. United States Treasury Notes and Bonds - Obligations of the U.S. government issued with a fixed coupon rate and original maturities of one year or more.

3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States or its agencies and instrumentalities.

4. Certificates of Deposit - Instruments issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured in any other manner and amount provided by law for deposits of the City.

5. Money Market Mutual Funds - The City may participate in no load money market mutual funds that 1)are regulated by the SEC; 2)have a dollar weighted average stated maturity of 90 days or fewer; and 3)maintain a net asset value of $1 for each share.

6. Texas Local Government Investment Pool (TEXPOOL) - Public funds investment pool organized under state law through the Interlocal Cooperation Act |(Tex. Rev Civ. Stat. Ann. Art. 4413 et seq.) and managed by the State Treasury Department.

7. Repurchase Agreements - Contractual Agreements between the City and Brokerage firms, banks or government bond dealers. The repurchase agreement (repo) issuer receives cash and, in turn, provides securities to the City as collateral for the cash. There exists a contractual agreement for the repo issuer to repurchase the securities at predetermined dates and prices. A Master Repurchase Agreement must be on file before the City will enter into any repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis.

B. DIVERSIFICATION

Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over concentration of investments in a specific maturity, a specific issue, or a specific class of securities. The following maximum limits, by instrument, are established for the City's total portfolio:

1. U.S. Treasury Bills/U.S Treasury Notes 100%
2. U.S. Agencies 50%
3. Certificates of Deposits 50%
4. Repurchase Agreements 50%
5. Money Market Mutual Funds 15%
6. Authorized Pools 50%

C. 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. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three (3) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exits for repurchase agreements, the maximum maturity shall be 120 days.

Reserve funds may be invested in securities not to exceed five years if the maturity of such investments are made to coincide as nearly as possible with the expected use of the funds.

The composite portfolio will have a weighted average maturity of 2 years or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

D. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

Financial institutions with and through whom the City invests shall be state or national banks domiciled in this state and shall be federally insured. No public deposit shall be made except in a qualified public depository as established by state laws. Broker/dealers authorized to provide investment services to the City may include only those designated as reporting dealers by the Federal Reserve Bank of New York , also known as "Primary Government Securities Dealers". Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers and banks.

In selecting qualified institutions, the credit worthiness of institutions shall be considered, and the Finance Director shall maintain and approve all changes to the bidders list. All dealers and banks with whom the City does business are to provide the certification of receipt and understanding of this Investment Policy.

E. COMPETITIVE BIDS

Competitive quotations must be taken from at least three qualifying institutions for any investment transaction. Investment transactions may be done orally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the City.

F. DELIVERY VS. PAYMENT

It is the policy of the City that all security transactions entered into by the City of Mesquite shall be conducted on a "DELIVERY VS. PAYMENT" basis (DVP) through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased.

G. SAFEKEEPING OF SECURITIES

1. SAFEKEEPING AGREEMENT

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.

2. SAFEKEEPING

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposit in banks. The collateral for certificates of deposit in banks will be registered in the City's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank, at the City's discretion. Original safekeeping receipts shall be obtained.

H. COLLATERALIZATION

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies. The market value of the investments securing the deposit of public funds shall be at least equal to the amount of the deposits of public funds increased by any accrued interest and reduced to the extent that the deposits are insured by an agency or instrumentality of the United States government. 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 whom the City has a current custodial agreement. The 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.

The City chooses to limit collateral to only those securities outlined in Section VI.A of this investment policy. Any collateral with a maturity of over five years must be approved by the Director of Finance before the transaction is initiated.

VII. INTERNAL CONTROL

The Director of Finance shall be responsible for the establishment of a system of internal controls. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's established investment policies.

VIII. PERFORMANCE

A. PERFORMANCE STANDARDS

The City's investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

B. PERFORMANCE BENCHMARK

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this passive strategy, the City attempts to purchase the highest yielding allowable investments available on the market at that time. Market value will be calculated on a monthly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during that period of time. Due to the passive strategy of the portfolio, the market rate of return of the three month Treasury Bill will be used as the benchmark for the average portfolio yield.

IX. REPORTING

An investment report summarizing cash position by fund group and invested funds will be provided in the Monthly Financial Report to the City Council. This report will contain summary information concerning security by types, maturities, portfolio yields, interest earnings, and market yields. On a quarterly basis, a written report shall be prepared and submitted to the City Council and Chief Executive Officer of all investment transactions for the reporting period. This report will contain detail information on each investment including beginning and ending market values, changes in market values, stated book values, and maturity dates of each separately invested asset.

X. INVESTMENT POLICY ADOPTION

The City of Mesquite Investment Policy shall be adopted by resolution of City Council. It is the City's intent to comply with all state laws and regulations. At any time that revisions in the law conflict with current policies and procedures, state law will automatically prevail. The City's investments policies shall be subject to revisions to stay current with changing laws, regulations, and needs of the City. The policy shall be reviewed annually by the City Council and any changes or modifications must be approved by the City Council.

GLOSSARY OF TERMS

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BID: The price offered by a buyer of securities (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

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

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Mesquite. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transaction, buying and selling for his own account.

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

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

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

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

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

FEDERAL HOME LOAN BANKS (FHLB): This institutions that regulate and lend to savings and loan associations. The federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

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

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid assets is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed int he custody of the State Treasures for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase that establishes each party's rights in the transaction. A master repurchase agreement will often specify, among other things, the right of the buyer-lender to liquidated the underlying security in the event of default by the buyer-seller.

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

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank s directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the-so called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefits of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

REPURCHASE AGREEMENT: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

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

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

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

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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