

RESOLUTION NO. 30-2011

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
MESQUITE, TEXAS, ADOPTING AN 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 an 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, more fully described in Exhibit "A" attached hereto and made a part hereof, is hereby adopted as the official investment policy of the City of Mesquite.

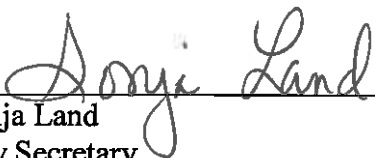
SECTION 2. That this resolution and the aforementioned investment policy shall take effect immediately from and after its passage.


DULY RESOLVED by the City Council of the City of Mesquite, Texas, on the 19th day of September, 2011.

  
\_\_\_\_\_  
John Monaco  
Mayor

ATTEST:

APPROVED:

  
\_\_\_\_\_  
Sonja Land  
City Secretary

  
\_\_\_\_\_  
B. J. Smith  
City Attorney

# CITY OF MESQUITE



# INVESTMENT POLICY

**2012**

**Updated September 19, 2011**

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## **PREFACE**

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Mesquite in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Mesquite shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the "Act") to define, adopt and review a formal investment strategy and policy.

It is the policy of the City of Mesquite, Texas that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

Effective investment strategy development coordinates the primary objectives of the City of Mesquite's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of interest earnings as viable and material revenue to all City of Mesquite funds. The City of Mesquite's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore specific strategies shall be implemented considering the fund's unique requirements.

## **INVESTMENT STRATEGY**

The City of Mesquite maintains a pooled investment portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. The composite portfolio will have a dollar weighted average maturity of 365 days or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security. Investment guidelines by fund-type are as follows:

- 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 that will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short- to medium-term securities that will complement each other in a laddered structure.
- Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligations on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date, or funds shall be maintained in an investment pool or money market mutual fund 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.

# 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 investment, 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 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 **yield** on the portfolio
- \* **Public trust** from prudent investment activities

## II. PURPOSE

The purpose of this investment policy is to comply with Chapter 2256 of Title 10 of the Texas Government Code ("Public Funds Investment Act") which requires each city 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 of Mesquite funds.

## III. SCOPE

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

- Governmental Funds, including debt service reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Propriety Funds
- Fiduciary Funds

- Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

The City of Mesquite will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

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.

#### **IV. INVESTMENT OBJECTIVES**

The City of Mesquite shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, yield, and public trust**. 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 yield on short-term investment of pooled idle cash.

##### **Safety**

Safety of principal is the foremost objective of the investment program. 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.

- Credit Risk – The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
  - Limiting investments to the safest types of securities
  - Pre-qualifying the financial institutions and broker/dealers with which the City will do business
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  
- Interest Rate Risk – the City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
  - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools

### **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 securities mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio will also be placed in money market mutual funds or local government investment pools that offer same day liquidity for short-term funds.

### **Yield**

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. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

### **Public Trust**

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

## **V. RESPONSIBILITY AND CONTROL**

### **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 responsibility for investment decisions and activities to an Investment Officer. Through the adoption of this policy, the positions of Cash and Debt Coordinator, Accounting Manager and Accounting Supervisor shall be designated as investment officers who are authorized to execute investment transactions on behalf of the City. No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy and approved by the City Council. The investment authority granted to the investing officers is effective until rescinded by the governing body.

### **Training Requirement**

The designated investment officers shall attend at least one investment training session within twelve months after taking office or assuming duties and receive not less than ten hours of instruction relating to investment responsibilities every two years. The training



provider must be an independent source approved by the City Council. For purposes of this policy, an “independent source” shall include professional organizations, institutes of higher learning or sponsors other than business organizations with whom the City of Mesquite may engage in investment transactions.

### **Internal Controls**

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

Accordingly, a process for annual independent review by an external auditor to assure compliance with policies and procedures shall be established. The internal controls shall address the following points.

- Separation of duties
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Oversight control of supervisors to subordinate staff members.
- Written confirmations for investment purchases.
- Development of a wire transfer agreement with the depository bank or third party custodian.

### **Prudence**

The standard of prudence to be applied by the investment officer shall be the “prudent investor” rule. This rule 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:

- 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.
- Whether the investment decision was consistent with the written investment policy of the City.

### **Indemnification**

The investment officer, acting in accordance with written 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 immediately and the appropriate action is taken to control adverse developments.

### **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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct 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.

Investment officers shall on an annual basis sign a statement acknowledging that they are in compliance with Section 2256.005 (1) of the Public Funds Investment Act.

## **VI. SUITABLE AND AUTHORIZED INVESTMENTS**

### **Portfolio Management**

The City currently has 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. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. Securities may be sold for the following reasons:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

**Investments and Investment Parameters**

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). The maximum limits, by instrument, are established for the City's total portfolio:

**Authorized**

1. Obligations of the United States of America, its agencies and instrumentalities, in an amount up to 100% of portfolio.
2. Certificates of Deposit of state and national banks domiciled in Texas, a savings and loan association domiciled in this state, or a state or federal credit union domiciled in this state 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 investing entity, in an amount up to 20% of portfolio.
3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and 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. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed. Repurchase agreement security types will be limited to 20% of the portfolio.
4. Money Market Mutual funds that are 1) registered and regulated by the SEC, 2) have a dollar weighted average stated maturity of 90 days or less, and 3) maintain a net asset value of \$1 for each share. Total investment in all money market mutual funds shall not exceed 50% of the portfolio.
5. Government investment pools which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and 3) are authorized by resolution or ordinance by City Council. Investment in any one local government investment pool shall not exceed 40% of the City's portfolio. Total investment in all pools shall not exceed 80% of the City's portfolio.

## **Not Authorized**

Investment of City funds in any instrument or security not authorized for investment under the Act is prohibited. Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited. Neither shall investments be made in obligations that are secured by these investments.

## **VII. INVESTMENT MATURITIES AND DIVERSIFICATION**

### **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 maturity 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 exists for repurchase agreements, the maximum maturity shall be 120 days.

The composite portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

### **Diversification**

The City of Mesquite 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:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- 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.

## **VIII. SELECTION OF BANKS AND DEALERS**

### **Depository**

At least every five years 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 the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

### **Authorized Brokers/Dealers**

The City of Mesquite will conduct investment transactions only with authorized broker/dealers that have been approved by the governing body of the City. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories as established by Chapter 105 of the Local Government Code. Firms requesting to become qualified bidders will be required to provide the following: 1) A completed broker/dealer questionnaire which provides information regarding creditworthiness, experience and reputation and 2) a certification stating the firm has received, read and understood the City's investment policy and agree to comply with the policy. The City shall, at least annually, review and revise this list as needed. The review will consist of consideration of new firms that have submitted the required documentation and a review of the performance of previously approved firms. Any modifications to the list will be submitted to the governing body for their review, approval, and adoption.

### **Competitive Bids**

It is the policy of the City to obtain bids for security transactions except for: a) transactions with money market mutual funds and local government investment pools b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution or c) securities offered by approved broker/dealers when market conditions would make obtaining bids impractical. Any time competitive bids are not received, comparative interest rates must be obtained and two investment officers must approve the purchase of the security.

### **Delivery vs. Payment**

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

## **IX. SAFEKEEPING OF SECURITIES**

### **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.

### **Safekeeping and Custody**

Safekeeping and custody of securities and collateral shall be in accordance with state law. Securities and collateral will be held by a third party custodian designated by the City, and held in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Original safekeeping receipts shall be obtained. Collateral for certificates of deposits 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 in the City's name, at the City's discretion.

### **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 and instrumentalities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. 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 agreement shall 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 safekeeping receipt shall be submitted to the City and retained. Collateral shall be reviewed daily to assure that funds are adequately collateralized. The bank will provide a monthly written report stating the market value of the pledged securities. This report shall be reviewed by the Director of Finance.

### **Collateral Defined**

The City of Mesquite shall accept only the following securities as collateral:

- FDIC insurance coverage.
- Obligations of the United States of America, its agencies and instrumentalities.
- Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

**Subject to Audit**

All collateral shall be subject to inspection and audit by the City's independent auditors.

**X. PERFORMANCE**

**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.

**Performance Benchmark**

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this 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 quarterly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during that period of time. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

**XI. REPORTING**

**Methods**

The Investment Officer 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, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner which 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 Manager and City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period
- The percentage of the total portfolio which each type of investment represents.
- Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.

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

### **Marking to Market**

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

## **XII. INVESTMENT POLICY ADOPTION**

The City of Mesquite 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 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.



**QUALIFIED BROKER/DEALERS AND INVESTMENT POOLS**

**FIDELITY INVESTMENTS**

Client Services, MC2W  
Treasury Management Services  
82 Devonshire Street  
Boston, MA 02109  
Phone: (800) 343-9222

**TEXSTAR**

1700 Pacific Avenue, Suite 1300  
Dallas, Texas 75201  
Phone (214) 953-8890

**FROST CAPITAL MARKETS**

100 West Houston St.  
P.O. Box 1600  
San Antonio, TX 78296  
Phone (210) 220-6113

**WELLS FARGO BROKERAGE**

1445 Ross Ave, Suite 210  
Dallas, Texas 75202  
Phone (214) 777-4018

**COASTAL SECURITIES, INC.**

555 San Felipe, Suite 2200  
Houston, TX 77056  
800-489-3232

**UBS PAINWEBBER**

100 Crescent Court  
Suite 600  
Dallas, TX 75201  
Phone: (800) 485-7048

**TEXPOOL**

600 Travis St. Suite 7200  
Houston, TX 77002  
Phone: (888) 839-7665

**VINING SPARKS**

500 West Cypress Creek Road  
Ste 220  
Fort Lauderdale, FL 33309  
Phone: (800) 314-3166

**FTN FINANCIAL CAPITAL  
MARKETS**

845 Crossover Lane, Suite 150  
Memphis, TX 38117  
Phone (901) 435-8473

**BANK OF AMERICA**

901 Main Street, 68<sup>th</sup> Floor  
Dallas, TX 75202  
Phone (214) 209-9194