

RESOLUTION NO. 25-2012

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

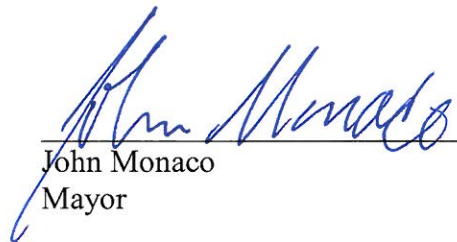
WHEREAS, the City Council realizes the need to adopt an investment policy for the City of Mesquite, Texas.

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, Texas.

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 17th day of September, 2012.



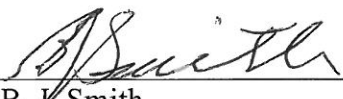
John Monaco
Mayor

ATTEST:

APPROVED:



Sonja Land
City Secretary



B. J. Smith
City Attorney

CITY OF MESQUITE



INVESTMENT POLICY

2013

Updated September 17, 2012

CITY OF MESQUITE INVESTMENT POLICY TABLE OF CONTENTS

| | |
|---|----|
| PREFACE | i |
| INVESTMENT STRATEGY..... | ii |
| I. POLICY | 1 |
| II. PURPOSE..... | 1 |
| III. SCOPE | 1 |
| IV. INVESTMENT OBJECTIVES..... | 2 |
| Safety..... | 2 |
| Liquidity | 3 |
| Yield..... | 3 |
| Public Trust | 3 |
| V. RESPONSIBILITY AND CONTROL..... | 3 |
| Delegation of Authority..... | 3 |
| Training Requirement..... | 3 |
| Internal Controls..... | 4 |
| Prudence..... | 4 |
| Indemnification | 5 |
| Ethics and Conflicts of Interest | 5 |
| VI. SUITABLE AND AUTHORIZED INVESTMENTS | 5 |
| Portfolio Management..... | 5 |
| Investments..... | 7 |
| <input type="checkbox"/> Authorized..... | 7 |
| <input type="checkbox"/> Not Authorized | 8 |
| VII. INVESTMENT MATURITIES AND DIVERSIFICATION..... | 8 |
| Maximum Maturities | 8 |
| Diversification..... | 9 |
| VIII. SELECTION OF BANKS AND DEALERS | 9 |
| Depository | 9 |
| Authorized Brokers/Dealers | 9 |
| Competitive Bids..... | 10 |
| Delivery vs. Payment..... | 10 |
| IX. SAFEKEEPING OF SECURITIES | 10 |
| Safekeeping Agreement | 10 |
| Safekeeping and Custody | 10 |
| Collateralization | 10 |
| Collateral Defined | 11 |
| Subject to Audit..... | 11 |
| X. PERFORMANCE..... | 11 |
| Performance Standards..... | 11 |
| Performance Benchmark | 12 |
| XI. REPORTING | 12 |
| Methods..... | 12 |
| Marking to Market..... | 13 |
| XII. INVESTMENT POLICY ADOPTION | 13 |
| QUALIFIED BROKER/DEALERS AND INVESTMENT POOLS..... | 14 |

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 and Accounting Manager 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. In addition, each investment officer must receive not less than 10 hours of instruction relating to investment

responsibilities not less than once in a fiscal two-year period. 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.

Investment Rating

Investment ratings will be obtained monthly from approved broker-dealers or from other independent third parties. Mutual funds must not be rated less than AAA or its equivalent by at least one nationally recognized investment rating firm. Investment Pools must not be rated less than AAA or at an equivalent rating by at least one nationally recognized rating service. The City will take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating necessary to qualify as an authorized investment.

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 including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, in an amount up to 100% of portfolio.
- 2) Certificates of Deposit, in an amount up to 20% of portfolio, purchased with the following conditions:
 - A. Shall be purchased from 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.
 - B. Shall be 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.
 - C. Shall be purchased through a broker that has a main office or a branch office in this state and is selected from a list adopted by the investing entity.
 - D. The broker or depository institution selected shall arrange for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the City's account.
 - E. The City shall appoint the depository institution selected or a clearing broker-dealer registered with the Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c.3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City.
- 3) Fully collateralized direct repurchase agreements with a defined termination date secured by cash and obligations of the United States or its agencies and instrumentalities. These securities or cash 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, 3) maintain a net asset value of \$1 for each share, 4) investments are exclusive in obligations approved by the PFIA, 5) continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, 6) conforms to the requirements set forth in Sections 2256.016 (b) and (c) of the Public Funds Investment Act relating to the eligibility of investment pools to receive and invest funds of investing entities. 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.