



**CITY OF BRYAN**  
*The Good Life, Texas Style.*

## Investment Policy 2017

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## **City of Bryan Investment Policy**

### **I. Governing Authority**

The Public Funds Investment Act (PFIA), Chapter 2256, Texas Government Code prescribes that each city is to adopt rules governing its investment practices and to define the authority of the Investment Officer. This Policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City's funds. This Policy applies to the City of Bryan ("COB") including its subdivision Bryan Texas Utilities ("BTU"). COB excluding BTU ("CITY") refers to all matters excluding those specific to BTU.

### **II. Policy**

It is the policy of the COB to invest public funds in a manner that will ensure the preservation of capital, meet daily cash flow demands, conform to all applicable State and Local statutes governing the investment of public funds, and provide reasonable investment returns.

### **III. Delegation of Authority and Investment Committee**

#### **Delegation of Authority**

Authority to manage the investment program is granted to the Chief Financial Officer of the COB or persons designated in writing by the City Manager and will have the appellation as the COB Investment Officer. The Investment Officer shall be responsible for the investment of CITY funds consistent with this Policy, and shall have the authority necessary to carry out such responsibilities. The Investment Officer shall be responsible for the investment of BTU funds consistent with this Policy, and shall have the authority necessary to carry out such responsibilities. BTU hedge transactions will be authorized in advance by BTU's Risk Management Committee, and executed in compliance with the BTU Board approved Risk Management Policy. All subsequent hedge validation and reporting will be done in accordance with the BTU Risk Management Policy. The Investment Officer (or Designee) will be responsible for selecting eligible broker/dealers and reviewing and updating this Investment Policy annually. All participants in the investment process shall act responsibly as custodians of the public trust. The Investment Officer shall establish written procedures for the operation of the investment program consistent with this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **Investment Committee**

The Investment Committee shall be comprised of three voting members: one member of City Council or a citizen appointed by City Council, one member of the BTU Board or a citizen appointed by the BTU Board, and one citizen appointed by City Council. The Investment Officer shall serve as an ex-officio member of the Investment Committee. The Investment Committee shall meet at least semi-annually. The Investment Committee shall be responsible for reviewing and recommending necessary changes to the Investment Policy to City Council at least annually. Additional responsibilities of the Investment Committee are described elsewhere in this Policy.

**IV. Approval of Investment Policy**

The COB's Investment Policy shall be adopted by resolution of the City Council. The Policy shall be reviewed by the Investment Committee at least annually and submitted, with any proposed changes, to the City Council for consideration and adoption.

**V. Scope**

**A. CITY Funds managed by the Investment Officer**

This Policy shall apply to the investment and management of all funds under control of the CITY, other than those expressly excluded herein or by applicable law or valid Agreement. These funds are accounted for in the City of Bryan Comprehensive Annual Financial Report (CAFR) and include the following:

**Funds**

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Enterprise Funds – excluding BTU Funds
5. Internal Service Funds
6. Debt Services Funds
7. Trust and Agency Funds
8. Permanent Funds
9. Any new funds created by the CITY, unless specifically exempted by the City Council.

**B. BTU Funds managed by the Investment Officer**

This Policy shall apply to the investment and management of all BTU funds, other than those expressly excluded herein or by applicable law or valid agreement. Such funds shall be accounted for in the BTU separate financial reporting system as prescribed by the Federal Energy Regulatory Commission (FERC) uniform system of accounts and further reported by separate audit and available for inclusion in the CAFR.

**Funds**

1. Enterprise Funds – BTU City
2. Enterprise Funds – BTU Rural
3. Enterprise Funds – BTU QSE
4. Hedging contracts and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations

**C. Fund Restrictions**

This Policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Policy and the requirements of any

fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Policy other than those in conflict.

**D. Pooled Investments**

CITY - In order to make effective use of resources, all monies may be pooled into one investment account, except for those monies accounted for in accounts as deemed necessary, or as stipulated by applicable laws, bond covenants or contracts. The income derived from any pooled investment account shall be distributed in accordance with internal procedures.

BTU - In order to make effective use of resources, all monies may be pooled into one investment account, except for those monies accounted for in accounts as deemed necessary, or as stipulated by applicable laws, bond covenants or contracts. The income derived from any pooled investment account shall be distributed in accordance with internal procedures.

CITY and BTU funds are maintained separately in recognition of the unique cash flow needs of the CITY and BTU, and the resulting differences in investment products and maturities.

**VI. Strategy and Objectives**

The COB strategy is to invest funds to ensure the preservation of capital, meet daily cash flow demands, conform to all applicable laws, and provide reasonable investment returns. To accomplish the COB's Investment Policy, the following objectives are as follows in order of priority:

**A. Suitability**

Each investment must be in conformance with all Federal regulations, State of Texas statutes, and other legal requirements - including the City Charter, City Ordinances, and this Investment Policy. Section IX includes a list of these securities and deposits specifically authorized as investments for the COB funds respectively.

**B. Preservation and Safety of Principal**

Investment of COB funds shall be undertaken in a manner that seeks to ensure the preservation of capital and the protection of investment principal in the overall portfolio. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

**C. Liquidity**

The COB investment portfolio will remain sufficiently liquid to enable the COB to meet all operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements, by investing in securities with active secondary markets, and by allocating a portion of available funds to

fully liquid investment accounts such as money market funds and public funds investment pools.

**D. Marketability**

The COB Policy is to buy and hold investments to maturity. However, authorized investments shall only include those investments that can be liquidated before maturity, should the need arise.

**E. Diversification**

Investments of the COB shall be diversified by security type and maturity date in such manner as approved by the Investment Committee.

**F. Yield**

The COB investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, and taking into account investment risk and cash flow characteristics of the portfolio. Given this strategy, the basis used by the COB to determine whether reasonable yields are being achieved shall be the daily average of the six-month U.S. Treasury Bill during the reporting period or the average Federal Funds target rate (whichever is higher). The investment strategy shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment principles.

**VII. Investment Procedures**

**A. Written Procedures**

The Investment Officer shall develop and maintain written administrative procedures for the operation of the Investment Strategy consistent with this Policy. Procedures should include reference to safekeeping, Securities Industry and Financial Markets Association (SIFMA) repurchase agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, internal controls to regulate investment activities of the COB, internal and external reviews, and explicit delegation of authority to persons responsible for investment transactions and cash management.

Procedures of control shall be designed to prevent, identify, and control losses of public funds arising from deviation from this Policy or misrepresentation by third parties.

**B. Training**

The Investment Officer shall attend at least one training session containing at least 10 hours of instruction relating to the Officer's investment responsibilities within 12 months after taking office or assuming duties. Further, the Investment Officer shall attend an investment training session not less than once in a two-year period that begins on October 1 and consists of the two consecutive fiscal years following that date, and receive not less than 8 hours of instruction relating to their investment responsibilities. Appropriate training shall include education in investment controls, security risks, strategy risks, market risks, diversification of

investment portfolio and compliance with the Public Funds Investment Act. Investment training authorized by this policy is included on Attachment B.

## **VIII. Standard of Care**

### **A. Prudence**

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

In determining whether investment decisions were made exercising prudence, the following shall be taken into consideration:

1. The investment of all funds, or funds under the COB's control, taken as a whole, rather than the prudence of a single investment, and
2. Whether the investment decision is consistent with the written Investment Policy of the COB at that time.

The Investment Officer acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability for adverse changes in security values.

### **B. Ethics and Conflicts of Interest**

1. Employees and the Investment Officer shall submit to the Investment Committee and the Internal Auditor any material financial interests in financial institutions that conduct business with the COB, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the COB's investment portfolio.
  - a. An Investment Officer of the COB who has a personal business relationship with a business organization offering to engage in an investment transaction with the COB shall file a statement disclosing that personal business interest.
  - b. An Investment Officer of the COB who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Act, to an individual seeking to sell an investment to the COB shall file a statement disclosing that relationship. A statement required under this section must be filed with the Texas Ethics Commission and the City Secretary.
  - c. For purposes of this subsection, an Investment Officer has a personal business relationship with a business organization if:
    - (1) the Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
    - (2) funds received by the Investment Officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

- (3) the Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.
2. Investment Officer(s) shall keep their personal investment transactions distinctly separate, as to timing and relationship, from those of the COB.

### C. Reporting Requirements

1. Within 30 days of the end of each quarter, the Investment Officer shall prepare and submit to the Investment Committee a report that details investment activity by maturity and type, and includes beginning and ending balances for book and market values, fully accrued interest for the period, and the changes which occurred during the quarter.

The Investment Officer or designee(s) may use such generally accepted method as approved by a the Investment Committee to monitor the market price of investments, including, but not limited to, periodic reports from approved broker/dealers or nationally recognized business publications that provide daily market valuations on individual securities.

2. The COB's Internal Auditor will review the quarterly reports for the fiscal year and will report the result of that review to the Investment Committee. The external auditors shall review the year end investment report and shall report their findings as a part of the annual Independent Auditor's Report of Financial Statements, a copy of which shall be provided to the Investment Committee.

## IX. Investments

### A. Portfolio Management

Portfolio assets under internal management will be purchased utilizing a "buy and hold" strategy. Active portfolio management is desired, accordingly, the Investment Officer may from time to time sell securities owned by the COB to better position portfolio assets.

1. Each investment transaction must be based upon competitive quotations received from at least three broker/dealers who have been approved by the Investment Committee in accordance with Texas law and this Policy.
2. All sales of securities prior to maturity shall be approved by the Investment Officer and reported to the Investment Committee.

### B. Authorized Securities Investments

Subject to any limitations otherwise imposed by applicable law, regulations, bond indentures or other agreements, the Texas Government Code and the Public Funds Investment Act, Chapter 2256, only the following securities and deposits are authorized investments for the COB funds:

1. **Direct obligations of the United States government:** U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds.



2. **Debentures or discount notes** issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment. Examples include the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), and the Federal Home Loan Mortgage Corporation (FHLMC).
3. **Bonds or other obligations** for which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States government or United States government 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.
4. **Certificates of Deposit** guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Share Insurance Fund or its successor, in state or national banks located within the State of Texas approved by COB in accordance with Section IX of this Investment Policy. Any deposits exceeding FDIC insurance limits shall be collateralized at 102% of the face amount of the Certificate of Deposit by securities listed above in Section IX. B.1 and the collateral shall be held by the COB's custodian bank. Bids for Certificates of Deposit may be solicited orally, in writing, electronically or using any combination of these methods.
5. **Repurchase Agreements** with a defined termination date of 90 days or less based upon U.S. Treasury securities listed above in Section IX.B.1. Collateral must have a minimum market value of 102% of the repurchase agreement.
  - a. Repurchase Agreements shall be entered into only with dealers who are recognized as primary dealers with the Federal Reserve Board of New York, and have executed a SIFMA Master Repurchase Agreement that has been approved by the Investment Committee. Collateral shall be held by the COB's custodian bank, respectively, or other independent third party custodian contracted by the COB as safekeeping agent, and the market value of such collateral securities shall be "marked-to-market daily" based on the bid price for the previous day as reported in the *Wall Street Journal* or other nationally recognized pricing service.
  - b. For purposes of this subsection, the term "collateral" shall mean "purchased securities" under the terms of the SIFMA Master Repurchase Agreement approved by the Investment Committee.
  - c. Bond proceeds may be invested in flexible repurchase agreements with maturity dates not exceeding the expected final project expenditure provided that a formal bidding process is followed and properly documented for IRS purposes.
6. **Reverse repurchase agreements** are allowable based on the following conditions:
  - a. The term of any reverse security repurchase agreement not exceed 90 days after the reverse security repurchase agreement is delivered, and
  - b. Money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the maturity date of these authorized investments must not exceed the expiration date stated in the reverse security repurchase agreement.

7. **Bankers Acceptances** eligible for discounting with the Federal Reserve maturing within 90 days.
8. **Commercial Paper** maturing within 180 days carrying a rating of A-1, P-1 or F-1.
9. **Money Market Mutual Funds** meeting each of the following criteria:
  - a. Is registered with and regulated by the Securities and Exchange Commission;
  - b. Charges no commission fee on purchases or sales of shares;
  - c. Has a stated objective of maintaining a constant daily net asset value of \$1.00 per share;
  - d. Has a maximum stated maturity of 13 months and dollar-weighted average stated maturity of no more than 90 days;
  - e. Is rated "AAA" or its equivalent by a nationally recognized investment rating firm; and,
  - f. Is comprised exclusively of investments described above in Section IX.B.1 through Section IX.B.8.

A list of Money Market Funds approved by the COB's Investment Officer, respectively, or their designee shall be kept by the City Secretary for the Investment Committee.

10. **Public Funds Investment Pools** organized under the Texas Interlocal Cooperation Act that follow the requirements in the Public Funds Investment Act, and have been specifically approved by the Investment Committee as listed on Attachment C. A public funds investment pool must be continuously rated no lower than AAA or AAA-m, or at an equivalent rating by at least one nationally recognized rating service.
11. **Direct obligations of the State of Texas and any political subdivisions** thereof which are rated as to investment quality by a nationally recognized investment rating firm not less than "AA" or its equivalent.
12. **Hedging contracts and related security and insurance agreements** in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. "Hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. A payment under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and BTU shall credit any amounts it receives under the contract or agreement against fuel expenses.

### C. **Portfolio Maturities**

Maturities shall be selected that provide for both stability of income and reasonable liquidity.

1. A security's "average life" does not constitute a stated maturity.
2. To the extent possible, the COB will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the COB will not directly invest in securities maturing more than five years from the date of purchase. However, the COB may collateralize its repurchase agreements using longer-dated securities approved by this Policy not to exceed 10 years to maturity.
3. The weighted average maturity of all securities and Certificates of Deposit in the COB's total investment portfolios at any given time (including cash or demand deposits) shall not exceed three years.

In the case of callable securities, the first "call" date shall be used as the "maturity" date for investment purposes in this subsection if, in the opinion of the Investment Officer, there is little doubt that the security will be called prior to maturity.

#### **D. Investment Limits**

It is the policy of the COB to avoid concentration of assets in a specific maturity, a specific issue, or a specific class of securities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets.

1. At all times, the CITY and BTU shall each maintain at least ten (10) percent of their respective portfolios in investments maturing in 90 days or less.
2. Neither the CITY's nor BTU's investment in any single money market fund or investment pool shall exceed fifteen (15) percent of the total assets of the money market fund or pool.
3. The amount of U.S. Treasury and Agency Securities, as defined above in Section IX.B.1 and Section IX.B.2, and Repurchase Agreements backed by securities defined above in Section IX.B.1 through Section IX.B.3, shall have no maximum limit as a percentage of the portfolio.
4. No more than twenty (20) percent of either the CITY's or BTU's monthly average balance may be invested in money market mutual funds.
5. Agencies and Instrumentalities shall not constitute more than seventy (70) percent of the CITY's or BTU's portfolios of total available funds.
6. Certificates of deposit shall not make up more than twenty (20) percent of CITY's or BTU's portfolio of total available funds.
7. Repurchase agreements shall not make up more than twenty (20) percent of the CITY's or BTU's portfolio of total available funds.
8. Commercial paper shall not make up more than twenty (20) percent of the CITY's or BTU's portfolio of total available funds.

9. Collateralized Mortgage Obligations (CMO's) and other derivatives such as inverse floaters, and other mortgage-backed securities that pay only the interest (IO) or principal ("PO") portion of the mortgage payment are strictly prohibited as both direct investments and collateral.

**E. Arbitrage**

All funds invested by the COB, if subject to federal arbitrage rules, shall be so reported and rebate, if applicable, shall be calculated and remanded promptly.

The COB's investment position, relative to the arbitrage restrictions, is the continued pursuit of maximizing yield on applicable investments while insuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and rebate excess earnings, if necessary.

**F. Credit Rating Downgrades/Loss of Required Rating**

An investment that requires a minimum credit rating does not qualify as an authorized investment during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. The Investment Officer shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating. Per PFIA 2256.017, any investment, which was an authorized investment at the time it was purchased, shall not be required to be liquidated.

**X. Authorized Financial Institutions for Certificates of Deposit, Broker/Dealers, and Investment Advisors**

The Investment Officer or their designee shall maintain a list of financial institutions authorized to provide the COB with investment services and a list of approved security broker/dealers and investment advisors.

**A. Certificates of Deposit**

The COB shall maintain a list of authorized banks and saving and loans, which are approved to provide Certificates of Deposit to the CITY and BTU. To be eligible for authorization, a bank or savings and loan must be a member of the FDIC and meet the minimum credit criteria set forth by the Investment Officer and approved by the Investment Committee.

1. Institutions that wish to provide Certificates of Deposit to the COB are required to provide to the COB a copy of the institution's quarterly Consolidated Report of Conditions and Income (CALL Report). This report shall be submitted within 60 days following the end of each calendar quarter.
2. Certificates of Deposit shall be purchased via competitive bidding among at least three banks located within the corporate limits of the City of Bryan or if there are not three banks available within the City's boundaries that are willing and able to accept such deposits, then at least three bids must be obtained from banks situated in Brazos County that are willing and able to accept such deposits.
3. Before a Certificate of Deposit is purchased, an executed depository agreement must exist between the COB and the financial institution.

4. Before Repurchase Agreements are purchased from financial institutions, a fully executed SIFMA Master Repurchase Agreement is required.
5. If a financial institution is acting as the COB custodian for collateral pledged against time deposits, then the custodian shall be included in a tri-party agreement with the depository institution. The agreement shall define the responsibilities of each party and clarify ownership of collateral.
6. Each depository institution holding the COB's funds and purchased securities shall maintain separate, accurate and complete records relating to all deposits of the COB's funds, the securities pledged to secure such deposits, and all transactions relating to the pledged securities. Each approved custodian shall maintain separate, accurate and complete records relating to all securities received on behalf of the COB, whether pledged, purchased or subject to repurchase agreement, as well as all transactions related to such securities. In addition, each depository shall file all reports required by the Texas State Depository Board. Each depository and custodian shall agree to make all these records available to the Investment Officer and to the external auditors for the COB.

**B. Selection of Broker/Dealers – Internally Managed Funds**

The COB shall maintain a list of broker/dealers and financial institutions that have been approved as counter parties for investment purposes. At least annually, the Investment Committee shall review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the COB.

1. Before trades are conducted with selected broker/dealers, a written copy of the Investment Policy shall be presented to any person offering to engage in an investment transaction with the COB. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with the COB to invest or manage the COB's investment portfolio. Nothing in this section relieves the COB of the responsibility for monitoring the investments made by the COB to determine that they are in compliance with this Investment Policy. The qualified representative of the business organization offering to engage in an investment transaction with the COB shall execute a written instrument in a form acceptable to the COB and to the business organization substantially to the effect that the business organization has:
  - a. Received and reviewed the Investment Policy of the entity; and
  - b. Implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the COB and the organization that are not authorized by the COB's Investment Policy, except to the extent that this authorization is dependent upon an analysis of the makeup of the COB's entire portfolio or requires an interpretation of subjective investment standards.
2. The Investment Officer shall review the quality of service and financial stability of each broker/dealer and financial institution approved under this section at least annually. Any approved broker/dealer or financial institution may be removed from the list of approved broker/dealers by the Investment Officer(s) if in the opinion of the Investment Officer the

firm has not performed adequately or its financial condition has become unacceptable. Any action to remove a broker/dealer shall be reported to the Investment Committee.

3. Securities shall be purchased only after the receipt of three competitive bids from the approved list of broker/dealers. The receipt of three competitive bids assures the City will be offered fair market value/fair market price for the agency security. Exceptions to the three competitive bids rule are: money market mutual funds transactions, governmental investment pool transactions and new agencies priced at par and still in syndicate.
  4. All broker/dealers shall maintain complete records of all transactions they conduct on behalf of the COB and shall make those records available for inspection at the COB's request.
  5. Trust departments of banks authorized to provide Certificates of Deposit may serve as a broker/dealer.
- C. **Selection of Broker/Dealers – Externally Managed Funds.** External money managers shall disclose to the COB the name and address of broker/dealers that the external money manager normally uses.
- D. **Selection of Investment Advisors.** The COB may, at the discretion of the Investment Committee, appoint one or more Investment Advisors to assist financial staff in the management of the COB's funds. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940 and with the State Securities Board. To be eligible for consideration, an Investment Advisor shall demonstrate to the Investment Officer knowledge of and experience in the management of public funds. The Investment Officer will satisfy himself as to the Advisor's qualifications by all appropriate means, including reference checks with the Advisor's other clients, the State Securities Board, and the Securities and Exchange Commission. An appointed Investment Advisor shall act within the guidelines of this Investment Policy while transacting business on behalf of the COB.
1. Appointment of an Investment Advisor shall otherwise be according to the COB's purchasing procedures for selecting professional services.
  2. The COB shall not purchase any securities from the Investment Advisor, or a parent or other affiliated company of the Investment Advisor.
  3. The Investment Advisor is prohibited from making soft-dollar arrangements of any kind.
  4. All contracted Investment Advisors shall report book value and market value of investment holdings, the total investment return, and such other information requested by the COB.

## **XI. Safekeeping and Custody**

Investment securities purchased for the COB, except investment pool funds and mutual funds, will be on a delivery versus payment basis and be delivered by either book entry or physical delivery. A Federal Reserve Member financial institution designated as the COB's safekeeping and custodian bank shall hold these securities in a third-party safekeeping account. The COB may designate more than one custodian bank. In no event shall the COB's custodial or

safekeeping institution also be a counterpart (broker or dealer) to the purchase or sale of these securities.

The COB shall execute a written Safekeeping Agreement with each bank prior to utilizing the custodian's safekeeping services. Only a state or national bank located within the State of Texas may be utilized as a custodian of securities pledged to secure Certificates of Deposit. The safekeeping agreement must provide that the safekeeping bank will immediately record the receipt of purchased or pledge securities on its books and promptly issue and deliver a signed safekeeping receipt showing the receipt and the identification of the security, as well as COB's interest.

- A. The Investment Officer or his designee shall maintain a list of designated custodian banks and a copy of the Safekeeping Agreement executed with each custodian bank.
- B. The Investment Officer must approve release of securities, in writing, prior to their removal from the custodian account. A facsimile of a written authorization shall be sufficient if the custodian orally confirms receipt of the transmission and an exact copy of the document is retained at COB.
- C. All securities shall be confirmed in the name of COB and delivered to an approved custodial bank or carried at a Federal Reserve Bank in the name of COB. The custodian shall not otherwise deposit purchased or pledged securities. All book entry securities owned by BTU shall be evidenced by a safekeeping receipt issued to COB and signed by the appropriate officer at the custodian bank stating that the securities are held in the Federal Reserve System in a customer account naming COB as the "customer." In addition, the custodian bank will furnish to COB a copy of the delivery advice received by the custodian bank from the Federal Reserve Bank.
- D. All certified securities (those transferred by physical delivery) shall:
  1. Be held by an approved custodian bank or any correspondent bank in New York City approved by the respective Investment Officer, and
  2. The correspondent bank, or CITY's or BTU's safekeeping bank, shall issue a safekeeping receipt to CITY or BTU evidencing the securities are held by the correspondent bank for CITY or BTU.
- E. The original safekeeping receipt for each transaction, including purchased securities under a repurchase agreement and collateral securing deposits, shall be forwarded to the Investment Officer or his designee and held in a secured file at COB.
- F. At least once each quarter, the Investment Officer or their designee shall verify that all securities owned by the COB or pledged to the COB are held in safekeeping in the COB's custodial bank with proper documentation. At least annually, the COB's Investment Program, including the records of custodians and depositories, shall be subject to a compliance audit of management controls on investments and adherence to these investment policies reviewed by an independent Certified Public Accountants selected by the City Council.
- G. The Public Funds Collateral Act requires the City have complete collateralization of all investments and deposits at the depository banking institution. This Act does not require collateralization of U.S. government issued agency securities or government sponsored

enterprises. The Act recommends a collateralization level of 102%.

## **XII. Glossary**

- A. "Bond Proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by the COB, and reserves and funds maintained by the COB for debt service.
- B. "Book Value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.
- C. "Funds" means public funds in the custody of the COB that the COB has the authority to invest.
- D. "Hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.
- E. "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives are (in order of priority) preservation and safety of principal, liquidity, and yield.
- F. "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market-pricing source quoted on the valuation date.
- G. "Pooled fund group" means an internally created fund of the COB in which one or more institutional accounts of the COB are invested.
- H. "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.
- I. "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:
  - 1. For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
  - 2. For a depository institution, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
  - 3. For an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
  - 4. For an investment management firm registered under the Investment Advisors Act of 1940 (15 USC section 80b-1 et seq.) or, if not subject to registration under the Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.



**Attachment A: 2017 Recommended List of Broker/Dealers**

**Coastal Securities**

Tony Sekaly  
5555 San Felipe, Suite 2200  
Houston, TX 77056  
800.681.4121  
[tds@coastalsecurities.com](mailto:tds@coastalsecurities.com)

**Duncan Williams**

Stephen Capoferi  
11458 W. Travelers Way Circle Houston,  
TX 77065  
866.394.0236 or 901.260.6854  
281.890.6439 FAX  
[steve@duncanw.com](mailto:steve@duncanw.com)

**First Southwest Company**

Linda Callaway  
300 West 6<sup>th</sup> Street, Suite 1940  
Austin, TX 78701  
800.842.8008 or 512.481.2040  
512.481.2050 FAX  
[lcallaway@firstsw.com](mailto:lcallaway@firstsw.com)

**Wells Fargo**

Kenneth F. Guillory  
1000 Louisiana Street, Suite 600  
Houston, TX 77002  
800.603.9111  
[Kenneth.F.Guillory@wellsfargo.com](mailto:Kenneth.F.Guillory@wellsfargo.com)

## **Attachment B: Authorized Investment Training**

- University of North Texas Center for Public Management – Public Funds Investment Act Training
- Texas State Auditor’s Office – Auditing for Investment Fraud
- Texas Municipal League – Public Funds Investment Act Training

## **Attachment C: Authorized Investment Pools**

TexPool  
600 Travis Street, Suite 7200  
Houston, TX 77002  
866.891.7665

TexSTAR  
325 North St. Paul, Suite 800  
Dallas, TX 75201  
800.839.7827