

City of Plano Investment Policy

The City of Plano (the "City") is required under the Public Funds Investment Act (the "PFIA") Chapter 2256, Texas Government Code, to adopt a written investment policy. The City is required to comply with the Investment Policy as approved by the City Council.

Statement of Intent

It is the Policy of the City to invest funds in a manner, which will insure maximum security and provide for the daily cash flow demands of the City, and conform to all State and local statutes governing the investment of public funds.

Scope

This Investment Policy applies to all financial assets of the City, except certain trust and pension funds contractually invested by outside managers, e.g. Retirement/Pension, and Employee Deferred Compensation.

All funds are accounted for in the City's Comprehensive Annual Financial

Report.

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by Investment Officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The Investment Officers, acting in accordance with written procedures and the Investment Policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported immediately upon knowledge of the deviation and appropriate action is taken to control adverse developments.

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

Objectives

The primary objectives of the City's investment activities shall be as follows:

1. Safety of principal is the foremost objective of the City's investment program. Investment transactions of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that actual losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that can be reasonably anticipated.
3. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

Delegation Of Authority

City employees authorized to engage in investment transactions and authorized as Investment Officers are the City Manager, the Director of Finance, the Treasurer, the Controller, and the Treasury Analyst. Management responsibility for the investment program is delegated from the City Manager to the Director of Finance who shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Investment procedures should include reference to the following: safekeeping agreements, repurchase agreements, wire transfer agreements, collateral agreements, depository service contracts and agreements, broker/dealer selection criteria, and security bidding and purchase processes. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for routine authorization of investments and the Controller shall be responsible for proper accounting of investments in order to maintain appropriate internal controls. The Director of Finance shall establish a system of controls to regulate the activities of subordinates.

Ethics And Conflict Of Interest

Investment Officers involved in the investment process who have a personal business relationship with a business organization offering to engage in an investment transaction with the City shall submit a statement disclosing that personal business interest to the City Council and the Texas Ethics Commission. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall submit a statement disclosing that relationship to the City Council and the Texas Ethics Commission. A personal business relationship with a business organization is defined as 1) owning 10 percent or more of the voting stock or shares of the business organization or owning \$5,000 or more of the fair market value of the business organization; 2) receiving funds from the business organization exceeding 10 percent of gross income for the previous year; or

3) acquiring from the business organization during the previous year investments with a book value of \$2,500 or more for a personal account.

Compliance Audit

As part of the annual audit, the independent auditor must formally review internal controls, compliance with the Policy, and the quarterly investment reports prepared to comply with the PFIA, and report the results of that review to the City Council as part of its regular audit report.

Depository Selection

A qualified depository shall be selected through the City's professional services contract process in compliance with state bidding requirements, and shall include a formal Request For Proposal. The centralization of depository services is designed to maximize investment capabilities while minimizing service costs as well as staff time spent on activities such as reconciliation

The selection of a depository shall be based on the financial institution offering the most favorable terms and conditions at the best value, while adhering to the guidelines and provisions within the request for proposal. In selecting a depository, the City shall give consideration to the financial institution's credit characteristics, financial history, service capabilities, and costs for required services.

The City's depository contract shall be in compliance with State law. Specialized services may be contracted for by the City with another financial institution or company if the depository cannot provide such service or charges more for the same service with little or no appreciable benefit.

Authorized Securities Dealers

The Investment Committee will review and adopt annually a list of qualified securities dealers authorized to engage in investment transactions with the City. The City will provide any person offering to engage in an investment transaction with the City, including investment pools, with a copy of the City's Investment Policy.

A qualified representative of the business organization offering to engage in an investment transaction must execute a written statement acknowledging receipt and review of the Policy and a statement acknowledging that reasonable procedures and controls have been implemented to preclude investment transactions that are unauthorized by this Investment Policy except, to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. All approved broker/dealer firms must submit a completed City Broker/Dealer Questionnaire, a written acknowledgment per above guidelines, an executed master repurchase agreement, if applicable, and a copy of current audited financial statements.

Investment Advisers

Investment Advisers shall adhere to the spirit, philosophy and specific term of the Investment Policy and shall invest within the same objectives. The Investment Officer shall establish criteria to evaluate Investment Advisers, including:

1. Adherence to the City's policies and strategies;
2. Investment strategy recommendations within accepted risk constraints;
3. Responsiveness to the City's request for services and information;
4. Understanding of the inherent fiduciary responsibility of investing public funds; and
5. Similarity in philosophy and strategy with the City's objectives.

Selected Investment Advisors must be registered under the Investment Advisers Act of 1940 or with the State Securities Board. A contract with an Investment Adviser may not be for a term longer than two years and any contract, renewal or extension must be approved by the City Council.

Authorized Investments

The City is authorized to invest in the following types of securities, as specified in the PFIA Eligible investments include the following:

1. obligations, including letters of credit, of the United States or its agencies and instrumentalities;
2. direct obligations of the State of Texas or its agencies and instrumentalities;
3. other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities;
4. obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; 5. certificates of deposit, issued by a depository institution that has its main office or a branch office in this state, that are:
 - a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor;
 - b) secured by obligations that are described by the PFIA, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than 102% of the principal amount of the certificates or in any other manner and amount provided by law for deposits of the

- investing entities;
- c) issued by a depository institution that arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, with the full amount of principal and accrued interest of each of the certificates of deposit insured by the Federal Deposit Insurance Corporation, or its successor; the depository institution selected by the City for the purchase of the certificates of deposit acts as custodian for the City with respect to the certificates of deposit issued for the City; and, at the same time that the funds are deposited and the certificates of deposit are issued for the account of the City, the issuing depository institution receives, from other federally insured depository institutions, wherever located, an amount equal to or greater than the amount of funds invested by the City through the depository institution issuing the certificates of deposit to the City;
7. fully collateralized repurchase agreements having a defined termination date, secured by obligations described by the PFIA, 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, and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;
8. mutual funds
- a) a no-load money market mutual fund that is registered with and regulated by the Securities and Exchange Commission; has a dollar-weighted average stated maturity of 90 days or fewer; provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and states in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share; and the City owns 10% or less of the fund's total assets; or
 - b) a no-load mutual fund that it is registered with the Securities and Exchange Commission; has an average weighted maturity of less than two years; is invested exclusively in obligations approved by Chapter 2256, sections 9 through 16; is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and conforms to the requirements set forth in Sections 2256.016 (b) and (c) relating to the eligibility of mutual funds to receive and invest funds of investing entities; with the following restrictions:
 - i) amount is limited to 15% of the City's monthly average fund

balance, excluding bond proceeds, reserves, and debt service funds; ii) is ineligible for investment of bond proceeds, reserves, and debt service funds; and iii) the City may not own more than 10% of the fund's total assets.

9. eligible investment pools that invest in instruments and follow practices allowed by current law as defined in the PFIA provided that:
- a) investment in the particular pool has been authorized by the City Council;
 - b) the pool shall have furnished the Investment Officer an offering circular containing the information required by the PFIA;
 - c) the pool shall furnish to the Investment Officer investment transaction confirmations with respect to all investments made with it;
 - d) The pool shall furnish to the Investment Officer monthly reports that contain the information required by the PFIA;
 - e) the pool's investment objectives shall be to maintain a stable net asset value of one dollar (\$1) and may have a weighted average maturity no greater than 90 days;
 - f) whose investment philosophy and strategy are consistent with this Policy and the City's ongoing strategy; and
 - g) the pool provides evidence of credit rating no lower than "AAA" or "AAA-m" by at least one nationally recognized credit rating service.

Unauthorized Investments

The City's authorized investment alternatives are more restrictive than those allowed by State law. Not all investments authorized by State Law are authorized by this Policy. The City prohibits investments in all collateralized mortgage obligations. State law specifically prohibits investment in the following investment securities:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

The City is not required to liquidate investments that were authorized investments at the time of purchase. The City will take prudent measures to liquidate any investment that loses its required minimum rating.

Investment Strategy

The City intends to maintain a consolidated portfolio in which all funds under the City's control, as specified in this Policy, are pooled for investment purposes. One of the fund's primary objectives is to insure that anticipated cash flows are matched with investment maturities. Both short and longer-term maturities are laddered to meet general operating, capital project and debt service expenditures, based on known and projected cash flows.

Another primary objective of the fund is the preservation and safety of principal by insuring that all securities are of a sufficiently high quality and duration so as to limit exposure to credit and market risks. The portfolio should therefore experience minimal volatility during varying economic cycles. Securities of all types are purchased with the intention of holding until maturity.

Other objectives include maintaining liquidity, including the ability to reasonably meet unanticipated needs by purchasing securities with an active secondary/resale market. Diversification is maintained in order to minimize possible credit risk in a specific security type.

The final objective of obtaining a market rate of return while considering risk constraints and cash flow needs, is much less important than safety of principal and liquidity. The majority of investments are limited to low risk securities earning an equitable rate of return relative to the amount of risk.

Competitive Selection of Investment Instruments

Before an Investment Officer invests any surplus funds, a competitive "quote" process shall be conducted. If a specific maturity date is required either for cash flow purposes or for conformance to maturity guidelines, offerings will be requested for instruments that meet the maturity requirement. If no specific maturity is required, the best value available within the time constraints of the Investment Policy will be selected. Offers will be requested from financial institutions and Authorized Securities Dealers for various investment alternatives with regard to term and instrument. The current interest rates of other approved investment alternatives will be considered. Documentation of the competitive process will be retained in the investment file.

Collateralization

In order to anticipate market changes and provide a level of security for all funds, collateralization is required for all City funds held in the depository as available funds, in certificates of deposit, and for repurchase agreements. With the exception of deposits secured with irrevocable letters of credit at 100% of amount, the collateralization level will be 102% of market value of principal and accrued interest. Evidence of the pledged collateral shall be maintained by the Director of Finance, or a third party financial institution. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate. If upon review, the collateral is found to be of inadequate value, the City will notify the pledging financial institution to immediately provide additional collateral.

The City shall accept only the following as collateral:

1. FDIC insurance coverage;
2. A Bond, Bill, Certificate of Indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States;
3. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas;
4. A Bond of the State of Texas or a county, city or other political subdivision of the State of Texas having been rated at no less than "A" or its equivalent by a nationally recognized rating agency with a remaining maturity of ten years or less;
5. Obligations of the United States' agencies and instrumentalities, limited to the FHLB, FNMA, FFCB and FHLMC; or
6. A letter of credit issued to the City by the Federal Home Loan Bank.

Collateral will be held by an independent third party with whom the entity will sign a custodial agreement. Safekeeping receipts must be supplied to the City and must be retained. All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

Additional collateral may be pledged as required, released when it is not needed, and substituted, if necessary, with the written consent of the Director of Finance, or an authorized Investment Officer. Any financial institution requesting substitution must contact the Director of Finance for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Director of Finance or designated Investment Officer must provide a written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense.

Safekeeping And Custody

All security transactions entered into by the City, with the exception of certificates of deposit, investment pools, and mutual funds, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party safekeeping agent

designated by the Investment Officer and Director of Finance. Safekeeping receipts and clearance documents will be required for all securities purchased by the City and held in safekeeping by an authorized third party.

Diversification

The City will diversify the portfolio at all times to ensure the reduction of risk while still maintaining reasonable rates of return, and to ensure a certain degree of liquidity. The City will diversify its investments by security type in the following manner:

With the exception of United States Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type. (Such as FNMA, FHLB, FHLMC, CD's at one institution, etc.)

Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average and final maturity, and avoidance of over-concentration of specific instruments.

Risk to liquidity due to cash flow complications shall be controlled by maintaining minimum bank, investment pool, and money market mutual fund balances.

Maximum Maturities

To the extent possible, the City will attempt to match its anticipated cash flow requirements with maturing investments. The City will not directly invest in securities maturing more than five years from the date of purchase. The portfolio's maximum average dollar-weighted maturity will be one year based on the stated maturity date of the investment.

Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during unpredictable budgetary and economic cycles at the local and federal levels, taking into account the City's investment risk constraints and cash flow needs.

The City's investment strategy is primarily passive. Given this strategy, the basis, or benchmark, used by the Investment Officer to determine whether market yields are being achieved shall be the 3 month or 6 month Treasury Bill or 1 or 2 year Treasury Note, whichever is closest to the weighted average maturity of the portfolio.

Reporting

Monthly Reporting. The Director of Finance is responsible for providing monthly information on investment activity in the Comprehensive Monthly Finance Report, to include the size of the portfolio, the distribution by maturity, the distribution by market sector, interest income earned during the current month and fiscal year to date, and the current portfolio yield.

Quarterly Reporting. The Director of Finance shall submit a signed quarterly investment report, jointly prepared and signed by all Investment Officers, that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

The quarterly investment report shall provide a status of the current investment portfolio and transactions made over the last quarter. The report will be provided to the City Manager and City Council and include the following:

1. A listing of individual securities held at the end of the reporting period;
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market price is the net selling price of securities as quoted by a recognized market pricing source quoted on the valuation date;
3. Additions and changes to the market value during the period and fully accrued interest for the reporting period;
4. Average weighted yield to maturity of the portfolio of City investments as compared to applicable benchmark;
5. Listing of investments by maturity date and by type of asset;
6. The percentage of the total portfolio that each type of investment represents;
7. A statement of compliance of the City's investment portfolio with State law and the investment strategy and Policy approved by the City Council

Market Pricing

Market Value of the investment portfolio will be calculated monthly. Pricing information will come from Bloomberg, IDC, or any other source deemed reliable by the Director of Finance. If the price of a particular security is not available from any of these sources, the price may be estimated by analyzing similar securities' market values.

Training

The Director of Finance, the Treasurer and any other authorized Investment Officer must attend at least one training session relative to their responsibilities under the PFIA within twelve months after taking office or assuming duties from an independent source approved by the Investment Committee. In addition, each must receive not less than 10 hours of instruction every two years relating to investment responsibilities from an independent source approved by the Investment Committee

Internal Controls

The Director of Finance is responsible for establishing appropriate internal controls.

The Investment Officers are responsible for executing investment transactions and the Accounting division is responsible for preparation of general ledger journal entries based on documentation prepared by the Investment Officers.

Investment Policy Review And Adoption

The City's Investment Policy shall be reviewed periodically by the Investment Committee and revised and recommended for Council approval, when necessary. In addition, the Policy must be reviewed not less than annually by the City Council. This review will include adoption of a written resolution stating that the Council has reviewed the Investment Policy and investment strategies and include any changes made to the Policy or strategies.

Investment Committee

An Investment Committee comprised of the City Manager, Director of Finance, and the Investment Officer(s) will meet on a quarterly basis. In addition to monthly and quarterly reporting to City Council, the Director of Finance will present a brief report of pertinent investment activities to the Investment Committee.

The primary objective of the Committee will be to review general strategies and policies, monitor investment program results, select independent training sources, and authorize securities dealers.